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**HOUSING, COMMUNITY DEVELOPMENT, AND
HOMELESSNESS PREVENTION ACT OF 1987**

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON

HOUSING AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON BANKING, FINANCE AND
URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

ONE-HUNDREDTH CONGRESS

FIRST SESSION

ON

H.R. 4

A BILL TO AMEND AND EXTEND CERTAIN LAWS RELATING TO HOUSING, COMMUNITY AND NEIGHBORHOOD DEVELOPMENT AND PRESERVATION, AND SHELTER ASSISTANCE FOR THE HOMELESS AND DISPLACED, AND FOR OTHER PURPOSES

MARCH 11, 12, 1987

PART 1

Printed for the use of the Committee on Banking, Finance and Urban Affairs

Serial No. 100-10



HOUSING, COMMUNITY DEVELOPMENT, AND HOMELESSNESS PREVENTION ACT OF 1987

HEARINGS BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES ONE-HUNDREDTH CONGRESS

FIRST SESSION

ON

H.R. 4

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MARCH 11, 12, 1987

PART 1

Printed for the use of the Committee on Banking, Finance and Urban Affairs

Serial No. 100-10

U.S. GOVERNMENT PRINTING OFFICE

70-477

WASHINGTON : 1987

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NATIONAL HOUSING POLICY-STATES' RESPONSE

Wednesday, March 11, 1987

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 2:19 p.m. in room 2128 of the Rayburn House Office Building, Hon. Henry B. Gonzalez (chairman of the subcommittee) presiding.

Present: Chairman Gonzalez, Representatives Garcia, Frank, Kaptur, Roemer, Kennedy, Saxton and Swindall.

Chairman GONZALEZ. (presiding) The subcommittee will please come to order.

The Subcommittee on Housing and Community Development begins legislative hearings today on H.R. 4—this is a first of a series of hearings—on the Housing and Community Development Act of 1987.

The subcommittee, on February 4, 1987, held a hearing on the emergency homeless legislation; on February 24 held a field hearing in Alexandria, VA to dramatize two examples of the loss of hundreds of affordable rental housing units for low and moderate income families in the Nation's urban areas.

Additional hearings have been scheduled for March 12, 19, and 26.

We hope to have markup on H.R. 4 following those hearings.

From the millions of new homeless men, women, and children to the thousands of low income families displaced each year from rental housing conversions to higher priced units, it is clear that the Nation continues to face a desperate affordable housing shortage.

As a matter of fact, we estimate that there are about 3 million families that are facing the loss of their low and moderate income rental homes because of the recapture of the mortgages on section 221(d)(3)'s and section 236's.

The failure of Congress since 1981 to enact responsible housing legislation to assist the local and State governments to meet rural and urban housing needs has exacerbated the Nation's housing problems. We would not have had to enact emergency homeless legislation on March 5, 1987 if the administration had not neglected to maintain an adequately funded Federal housing policy.

The Congress enacted landmark housing legislation in 1937. Since 1949 and until this administration, a decent and suitable living environment for all Americans was the national housing policy.

This national housing policy for the most part had bipartisan support. As a matter of fact, it was always the boast and the pride that it had been a bipartisan effort.

This administration has refuted this policy and since 1981 has caused budget cuts of over 70 percent in federally assisted housing and community development programs.

The Nation's complex housing problems cannot be solved by inaction or by deferring the responsibility solely to the local and State governments or to religious organizations and the private sector or to impale the needs of the American families for safe, decent, and affordable housing on the altar of ideological ravings.

Safe, decent, affordable housing for all Americans is an American problem; it is everyone's responsibility.

The subcommittee is optimistic that H.R. 4, the Housing and Community Development Act of 1987, will begin to reaffirm the Federal Government's responsibility to provide safe, decent, and affordable housing to the Nation's low and moderate income families.

It is with great pleasure to hold these hearings today on "National Housing Policy-States' Response" to provide our State governors and State representatives the opportunity to tell the subcommittee their State's housing needs, the role of Federal housing programs in their States, the impact of Federal housing budget cuts on addressing their housing needs, the State's efforts to address their housing concerns, and their perception of a Federal housing policy.

[The opening statement and charts submitted by Chairman Gonzalez and a copy of the bill H.R. 4 follows:]

CHAIRMAN GONZALEZ'S OPENING STATEMENT
FOR THE HEARING ON "NATIONAL HOUSING POLICY - STATES RESPONSE"
ON WEDNESDAY, MARCH 11, 1987

The Subcommittee on Housing and Community Development begins legislative hearings today on H.R. 4, the Housing and Community Development Act of 1987. The Subcommittee on February 4, 1987, held a hearing on emergency homeless legislation, and on February 24, 1987, held a field hearing in Alexandria, Virginia to dramatize two examples of the loss of hundreds of affordable rental housing units for low- and moderate-income families in the nation's urban areas. Additional hearings have been scheduled for March 12, 19, and 26th. The Subcommittee will mark-up H.R. 4, following the hearings.

From the millions of new homeless men, women, and children to the thousands of low-income families displaced each year from rental housing conversions to higher priced units, it is clear that the nation continues to face a desperate affordable housing shortage.

The failure of Congress since 1981 to enact responsible housing legislation to assist local and state governments to meet rural and urban housing needs has exacerbated the nation's housing problems. We would not have had to enact emergency homeless legislation on March 5, 1987, if the Administration had not neglected to maintain an adequately funded federal housing policy.

The Congress enacted landmark housing legislation in 1937. Since 1949 and until this Administration, a decent and suitable living environment for all Americans was the national housing policy. This national housing policy for the most part had bipartisan support. This Administration has refuted this policy and since 1981 has caused budget cuts of 70% in federally-assisted housing and community development programs.

-2-

The nation's complex housing problems cannot be solved by inaction, or by deferring the responsibility solely to the local and state governments, or to religious organizations and the private sector. Safe, decent, affordable housing for all Americans is an American problem; it's everyone's responsibility.

The Subcommittee is optimistic that H.R. 4, the Housing and Community Development Act of 1987 will begin to reaffirm the federal government's responsibility to provide safe, decent, and affordable housing to the nation's low- and moderate income citizens.

It is with great pleasure to hold this hearing today on "National Housing Policy- States Response," to provide our state governors and state representatives the opportunity to tell the Subcommittee their states' housing needs; the role of federal housing programs in their states; the impact of federal housing budget cuts on addressing their housing needs; the state's efforts to address their housing concerns; and their perception of a federal housing policy.

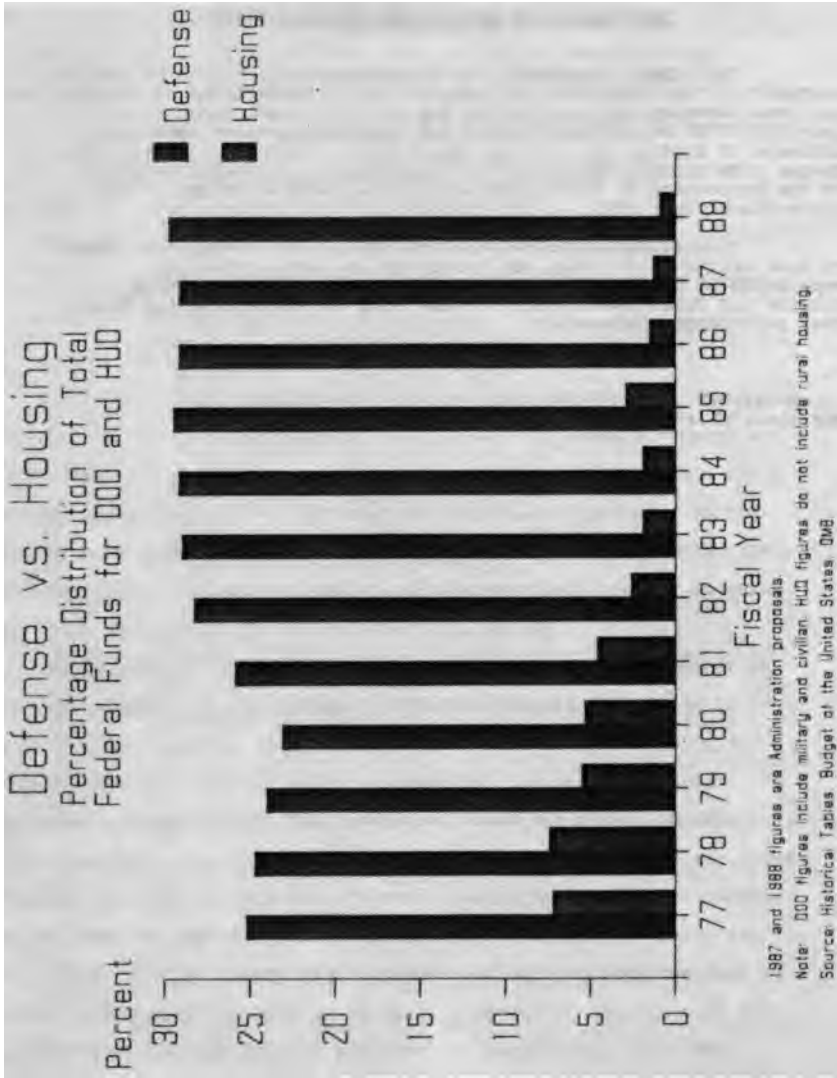
We have as our first witness the very distinguished Governor of the Commonwealth of Massachusetts, Michael Dukakis. He comes to us with a splendid reputation and a commitment to provide funding for housing and community development programs from state resources. We are most anxious to hear from state and local officials, particularly those who have made the effort and commitment at addressing the major social and economic problems of their communities. Governor Dukakis, we welcome you and are honored by your presence and I yield to two very distinguished Massachusetts Members of our Subcommittee both of whom I understand you know quite well, Congressman Barney Frank and Congressman Joe Kennedy, for purposes of introducing you to the Subcommittee.

Description of Defense vs. Housing Chart

This chart represents the percentage distribution of Budget Authority to the Department of Defense and the Department of Housing and Urban Development provided in the Federal Budget since Fiscal Year 1977. It dramatically shows the relative constant nature and increase of funding for military and civilian defense programs since Reagan took office. Likewise, it illustrates the drastic reduction in the percentage of funds committed in the Federal Budget to HUD since Fiscal Year 1977.

It particularly shows that the Reagan Administration, since it took office in FY 1982, has increased its funding for the Department of Defense while drastically cutting the Department of Housing and Urban Development to less than one percent in its Fiscal Year 1988 budget proposal.

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Description of Chart on HUD Program Funding

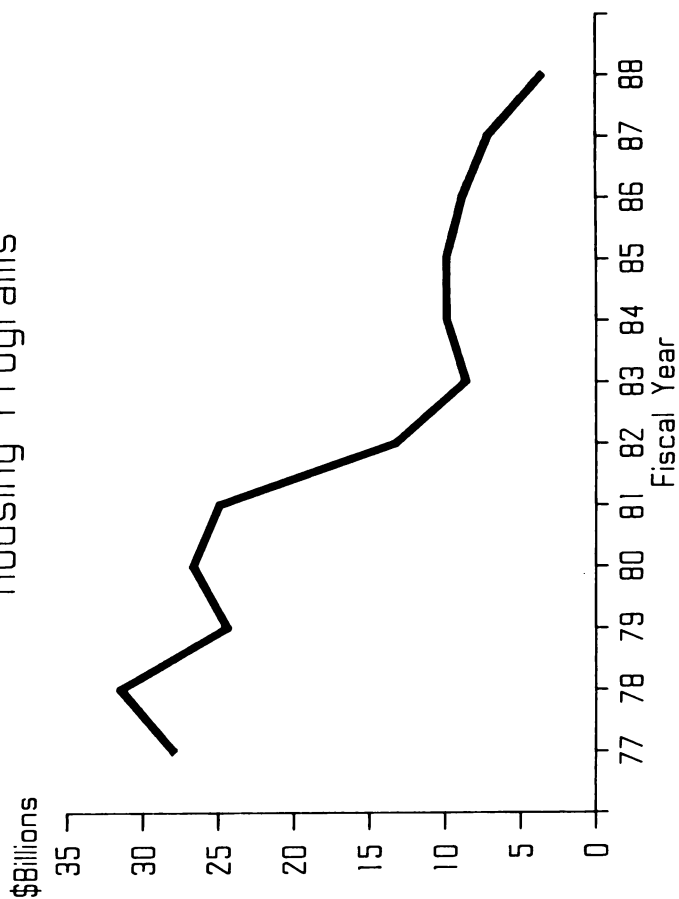
The chart illustrates the Budget Authority provided for the HUD subsidized housing programs, including public housing new construction, public housing modernization, Section 8 Existing Certificates and Section 8 Certificate Set-Asides for the Section 202 Elderly and Handicapped Housing Program, Section 8 Moderate Rehabilitation and Section 8 five-year voucher program.

Budget Authority for the Section 17 Housing Development and Rental Rehabilitation Programs is also included within the total levels since commitments were first made in Fiscal Year 1984.

This chart essentially reflects the drastic reductions for these subsidized housing programs under the Reagan Administration.

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"Chart"

Funding for HUD Low-Income Housing Programs



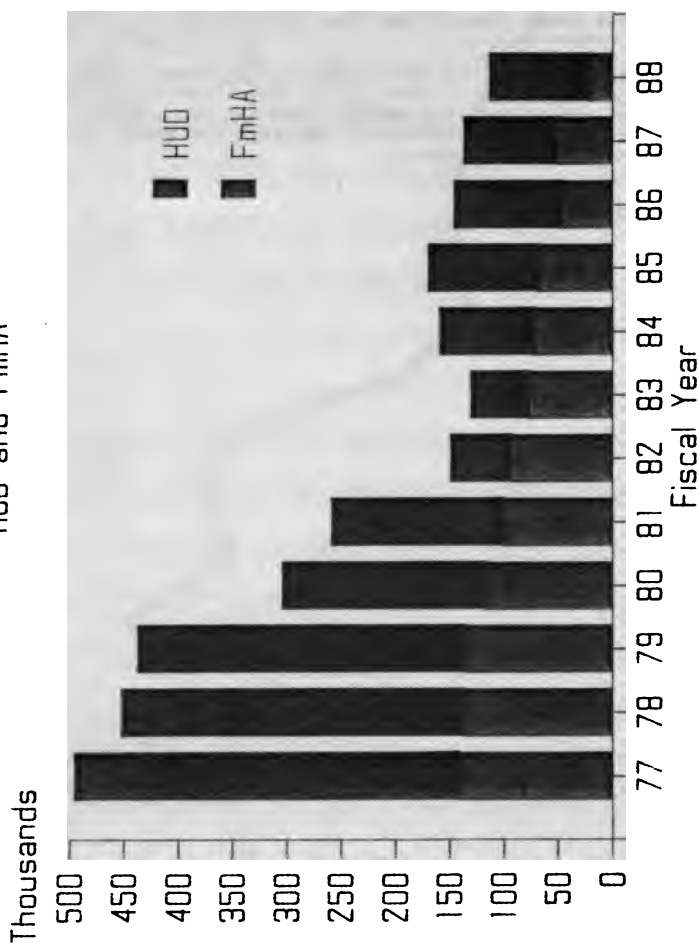
1987 and 1988 figures are Administration proposals.
Source: Congressional Budget Office

Description of Net Additional Households Assisted

This chart depicts the net new additional subsidized household units added since Fiscal Year 1977 to the existing number of assisted households provided by the Federal Government. The chart reflects the drastic decrease since Fiscal Year 1977 of the number of new units being added to the low-income housing stock. Since Fiscal Year 1982, the Reagan Administration has consistently proposed drastic reductions in both the Farmers Home and HUD housing programs. It has been Congress which has kept the number of units at the levels provided in the chart.

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"CHART"

Net Additional Households Assisted Annually HUD and FmHA



1987 and 1988 figures are Administration proposals.
Source: Congressional Budget Office.

100TH CONGRESS
1ST SESSION

H. R. 4

To amend and extend certain laws relating to housing, community and neighborhood development and preservation, and shelter assistance for the homeless and displaced, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 1987

Mr. GONZALEZ (for himself and Mr. ST GERMAIN) introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

A BILL

To amend and extend certain laws relating to housing, community and neighborhood development and preservation, and shelter assistance for the homeless and displaced, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Housing and Community
5 Development Act of 1987".

6 **SEC. 2. FINDINGS AND PURPOSE.**

7 (a) **FINDINGS.**—The Congress finds that—

1 (1) for the past 50 years, the Federal Government
2 has taken the leading role in enabling the people of the
3 Nation to be the best housed in the world, and recent
4 reductions in Federal assistance have contributed to a
5 deepening housing crisis for low- and moderate-income
6 families;

7 (2) the efforts of the Federal Government have in-
8 cluded a system of specialized lending institutions, fa-
9 vorable tax policies, construction assistance, mortgage
10 insurance, loan guarantees, secondary markets, and in-
11 terest and rental subsidies, that have enabled people to
12 rent or buy affordable, decent, safe, and sanitary hous-
13 ing; and

14 (3) the tragedy of homelessness in urban and sub-
15 urban communities across the Nation, involving a
16 record number of people, dramatically demonstrates the
17 lack of affordable residential shelter, and people living
18 on the economic margins of our society (lower income
19 families, the elderly, the working poor, and the deinsti-
20 tutionalized) have few available alternatives for shelter;

21 (b) PURPOSE.—The purpose of this Act, therefore, is—

22 (1) to reaffirm the principle that decent and af-
23 fordable shelter is a basic necessity, and the general
24 welfare of the Nation and the health and living stand-
25 ards of its people require the addition of new housing

1 units to remedy a serious shortage of housing units for
2 all Americans, particularly for persons of low and mod-
3 erate income;

4 (2) to make the distribution of direct and indirect
5 housing assistance more equitable by providing Federal
6 assistance for the less affluent people of the Nation;

7 (3) to provide needed housing assistance for home-
8 less people and for persons of low and moderate
9 income who lack affordable, decent, safe, and sanitary
10 housing; and

11 (4) to reform existing programs to ensure that
12 such assistance is delivered in the most efficient
13 manner possible.

14 **TITLE I—SHELTER ASSISTANCE**
15 **FOR THE HOMELESS AND DIS-**
16 **PLACED**

17 **SEC. 101. NATIONAL EMERGENCY FOOD AND SHELTER**
18 **BOARD.**

19 (a) **ESTABLISHMENT.**—There hereby is established in
20 the Department of Housing and Urban Development a board
21 to be known as the National Emergency Food and Shelter
22 Board. It shall be the function of the Board to carry out the
23 provisions of this title.

24 (b) **MEMBERSHIP.**—The Board shall be composed of 7
25 members as follows:

1 (1) the Secretary of Housing and Urban Develop-
2 ment, or the designee of the Secretary, who shall be
3 the chairperson of the Board; and

4 (2) 6 members appointed by the Secretary from
5 individuals who—

6 (A) have expertise in the provision of shelter
7 and related services to the homeless; and

8 (B) are recommended by the organizations
9 that are members of the national board of char-
10 ities constituted under the emergency food and
11 shelter program established pursuant to section
12 101(g) of Public Law 99-500 or Public Law 99-
13 591.

14 (c) **TERM OF MEMBERSHIP.**—

15 (1) **IN GENERAL.**—Each member of the Board de-
16 scribed in subsection (b)(2) shall be appointed for a
17 term of 2 years.

18 (2) **VACANCIES.**—Any vacancy in the Board oc-
19 curring before the expiration of a term shall be filled in
20 the manner in which the original appointment was
21 made. Any member appointed to fill such a vacancy
22 shall be appointed only for the remainder of such term.

23 (d) **MEMBERS NOT FEDERAL EMPLOYEES.**—The mem-
24 bers of the Board shall not, by reason of their membership on

1 the Board, be considered to be officers or employees of the
2 Federal Government.

3 (e) PAY AND EXPENSES.—

4 (1) IN GENERAL.—Each member of the Board
5 shall serve without pay, allowances, or benefits by
6 reason of such service.

7 (2) TRAVEL EXPENSES.—Each member of the
8 Board shall, while attending meetings of the Board or
9 while engaged in duties relating to such meetings or in
10 other activities of the Board under this title, be al-
11 lowed (except in the case of members of the Board
12 who are officers or employees of the Federal Govern-
13 ment) travel expenses while away from their homes or
14 regular places of business, including per diem in lieu of
15 subsistence, equal to that authorized by section 5703 of
16 title 5, United States Code, for persons in the Govern-
17 ment service employed intermittently.

18 (f) MEETINGS.—The Board shall meet not less than 3
19 times during each fiscal year, at the call of its chairperson or
20 a majority of its members.

21 (g) STAFF AND OFFICES.—The Secretary shall provide
22 the Board with such staff and office facilities as are necessary
23 to ensure that the Board carries out its functions under this
24 title in an efficient and expeditious manner.

1 (h) **TRANSFERS FROM NATIONAL BOARD OF CHAR-**
 2 **ITIES.**—Upon the appointment of members to the Board
 3 under subsection (b)—

4 (1) the national board of charities constituted
 5 under the emergency food and shelter program estab-
 6 lished pursuant to section 101(g) of Public Law 99-
 7 500 or Public Law 99-591 shall cease to exist; and

8 (2) the personnel, property, records, and undistrib-
 9 uted program funds of the national board of charities
 10 shall be transferred to the Board.

11 **SEC. 102. CONTINUATION OF NATIONAL BOARD OF CHARITIES**
 12 **PROGRAM.**

13 (a) **IN GENERAL.**—The Board shall continue the emer-
 14 gency food and shelter program established pursuant to sec-
 15 tion 101(g) of Public Law 99-500 or Public Law 99-591.
 16 Activities under such program may include repairs necessary
 17 to make emergency shelter facilities safe and sanitary and
 18 ensure compliance with local building and related codes.

19 (b) **FUNDING.**—

20 (1) Any amount transferred to the Board under
 21 section 101(h)(2) shall be utilized by the Board to carry
 22 out this section.

23 (2) There are authorized to be appropriated to
 24 carry out this section \$200,000,000 for fiscal year

1 1988. Any amount appropriated under this paragraph
2 shall remain available until expended.

3 (c) **COORDINATION WITH TASK FORCE.**—In carrying
4 out this section, the Board shall coordinate activities with the
5 Federal Interagency Task Force on Food and Shelter chaired
6 by the Secretary of Health and Human Services, or any suc-
7 cessor Federal task force established to deal with the prob-
8 lems of the homeless, to identify vacant and surplus Federal
9 facilities that could be renovated or converted for use as
10 emergency shelter facilities for the homeless.

11 **SEC. 103. SECOND STAGE HOUSING FOR THE HOMELESS AND**
12 **DISPLACED.**

13 (a) **DEMONSTRATION PROGRAM.**—

14 (1) **IN GENERAL.**—The Board shall carry out a
15 demonstration program in accordance with the provi-
16 sions of this section to determine the effectiveness of
17 assisting nonprofit organizations in providing housing
18 and supportive services for homeless persons.

19 (2) **PURPOSES.**—Such demonstration program
20 shall be designed to determine—

21 (A) the cost of acquisition, rehabilitation, or
22 acquisition and rehabilitation of existing structures
23 for the provision of housing for homeless persons;

1 (B) the cost of operating such housing and
2 providing supportive services to the residents of
3 such housing;

4 (C) the social, financial, and other advan-
5 tages of such housing and supportive services as
6 an alternative to continued institutionalization of
7 handicapped persons; and

8 (D) the social, financial, and other advan-
9 tages of such housing and supportive services as a
10 means of assisting homeless persons.

11 (b) ASSISTANCE TO NONPROFIT ORGANIZATIONS.—

12 (1) IN GENERAL.—The Board may provide the
13 following assistance to any eligible nonprofit organiza-
14 tion under the demonstration program established in
15 this section:

16 (A) a non-interest-bearing advance equal to
17 the aggregate cost of acquisition, rehabilitation,
18 acquisition and rehabilitation, or leasing of an ex-
19 isting structure for use in the provision of housing
20 and supportive services for homeless persons;

21 (B) annual payments for operating expenses
22 of such housing, not to exceed 80 percent of the
23 annual operating expenses of such housing; and

1 (C) technical assistance in establishing and
2 operating such housing and providing supportive
3 services to the residents of such housing.

4 (2) **NONREPAYMENT OF ADVANCES.**—Any ad-
5 vance provided under paragraph (1)(A) shall not be re-
6 quired to be repaid if the nonprofit organization in-
7 volved utilizes the structure for which such advance is
8 made, for not less than the 10-year period following
9 initial occupancy of such housing—

10 (A) as housing for homeless persons in ac-
11 cordance with the provisions of this section; or

12 (B) as housing for lower income persons, if
13 the Board determines that the structure is no
14 longer required for use as housing for homeless
15 persons.

16 (3) **ASSISTANCE CONTRACTS.**—The Board shall,
17 to the extent approved in appropriation Acts, enter
18 into a contract with each nonprofit organization receiv-
19 ing annual payments under paragraph (1)(B) to provide
20 for the making of such payments for not more than a
21 2-year period.

22 (c) **PROGRAM REQUIREMENTS.**—

23 (1) **APPLICATIONS.**—Applications for assistance
24 under this section shall be made in such form and in

1 accordance with such procedures as the Board shall
2 establish.

3 (2) **SELECTION CRITERIA.**—In selecting nonprofit
4 organizations for assistance under this section, the
5 Board shall consider—

6 (A) the ability of such nonprofit organization
7 to develop and operate housing for homeless per-
8 sons and to provide or coordinate supportive serv-
9 ices for the residents of such housing;

10 (B) the extent to which such nonprofit orga-
11 nization will utilize innovative methods in provid-
12 ing housing and supportive services for homeless
13 persons;

14 (C) the need for such housing and supportive
15 services in the area to be served; and

16 (D) such other factors as the Board deter-
17 mines to be appropriate for purposes of carrying
18 out the demonstration program established in this
19 section in an effective and efficient manner.

20 (3) **REQUIRED AGREEMENTS.**—Each nonprofit
21 organization receiving assistance under this section
22 shall agree, with respect to each structure for which
23 such assistance is provided—

1 (A) to conduct an assessment of the support-
2 ive services required by the residents of such
3 structure;

4 (B) to employ a full-time residential supervi-
5 sor with sufficient expertise to provide, or super-
6 vise the provision of, supportive services to the
7 residents of such structure; and

8 (C) to comply with such other terms and
9 conditions as the Board may establish for pur-
10 poses of carrying out the demonstration program
11 established in this section in an effective and effi-
12 cient manner.

13 (4) OCCUPANT RENT.—Each homeless person re-
14 siding in housing assisted under this section shall pay
15 as rent an amount determined in accordance with the
16 provisions of section 3(a) of the United States Housing
17 Act of 1937.

18 (d) REGULATIONS.—

19 (1) IN GENERAL.—Not later than the expiration
20 of the 120-day period following the date of the enact-
21 ment of this Act, the Secretary shall issue such regula-
22 tions as may be necessary to carry out the provisions
23 of this section.

24 (2) ADVANCE CONSULTATION.—Before issuing
25 regulations under this section, the Secretary shall con-

1 sult with persons and entities having expertise with re-
2 spect to the problems and needs of homeless persons or
3 experience in providing housing or supportive services
4 for such persons.

5 (e) FUNDING.—

6 (1) LIMITATION ON BUDGET AUTHORITY.—The
7 aggregate amount of non-interest-bearing advances and
8 annual payments for operating expenses made by the
9 Board under this section may not exceed \$50,000,000
10 for fiscal year 1988. Such amount shall remain avail-
11 able until expended.

12 (2) DISBURSEMENT.—Any amount approved in
13 an appropriation Act for this section shall be disbursed
14 not later than the expiration of the 120-day period fol-
15 lowing the date of enactment of such Act.

16 SEC. 104. EMERGENCY SHELTER GRANTS.

17 (a) GRANT ASSISTANCE.—The Board shall, to the
18 extent of amounts approved in appropriation Acts, make
19 grants to States and units of local government (and to private
20 nonprofit organizations providing assistance to the homeless,
21 in the case of grants made with reallocated amounts) in order
22 to carry out activities described in subsection (c).

23 (b) ALLOCATION AND DISTRIBUTION OF ASSIST-
24 ANCE.—

1 (1) **IN GENERAL.**—The Board shall allocate as-
2 sistance under this section to metropolitan cities, urban
3 counties, and States (for distribution to units of general
4 local government in the States) in a manner that en-
5 sures that the percentage of the total amount available
6 under this section for any fiscal year that is allocated
7 to any State, metropolitan city, or urban county is
8 equal to the percentage of the total amount available
9 for section 106 of the Housing and Community Devel-
10 opment Act of 1974 for the prior fiscal year that is al-
11 located to such State, metropolitan city, or urban
12 county.

13 (2) **MINIMUM ALLOCATION REQUIREMENT.**—If,
14 under the allocation provisions applicable under this
15 section, any metropolitan city or urban county will re-
16 ceive a grant of less than \$30,000 for any fiscal year,
17 such amount shall instead be allocated to the State in
18 which such city or county is located and shall be in-
19 cluded in the amount available for distribution to units
20 of general local government in the State.

21 (3) **DISTRIBUTIONS TO NONPROFIT ORGANIZA-**
22 **TIONS.**—Any unit of general local government receiv-
23 ing assistance under this section may distribute all or a
24 portion of such assistance to private nonprofit organiza-
25 tions providing assistance to the homeless.

1 (4) **REALLOCATION FUNDS.**—

2 (A) The Board shall, not less than twice
3 during each fiscal year, reallocate any assistance
4 provided under this section that is unused or re-
5 turned to the Board under subsection (e)(3).

6 (B) The Board shall provide such reallocation
7 funds—

8 (i) to units of general local government
9 demonstrating extraordinary need or large
10 numbers of homeless individuals;

11 (ii) to private nonprofit organizations
12 providing assistance to the homeless; and

13 (iii) to meet such other needs consistent
14 with the purposes of this section.

15 (c) **ELIGIBLE ACTIVITIES.**—Assistance provided under
16 this section may be used for—

17 (1) the following activities relating to emergency
18 shelter for the homeless:

19 (A) renovation of buildings to be used as
20 emergency shelters;

21 (B) provision of essential services, including
22 services concerned with employment, health, drug
23 abuse, or education, if—

24 (i) such services have not been provided
25 by the unit of general local government

1 during any section of the immediately pre-
 2 ceding 12-month period; and

3 (ii) not more than 15 percent of the
 4 amount of any assistance to a unit of general
 5 local government under this section is used
 6 for activities under this paragraph; and

7 (C) maintenance, insurance, operation (other
 8 than staff), utilities, and furnishings; and

9 (2) the activities described in paragraph (1) for
 10 any second stage housing project replicating a second
 11 stage housing project operating effectively under sec-
 12 tion 103 for a period of not less than 2 years.

13 (d) RESPONSIBILITIES OF GRANTEEES.—

14 (1) SUBMISSION OF HOMELESS ASSISTANCE
 15 PLAN.—Following notification by the Board of eligibil-
 16 ity for assistance under this section, each State, metro-
 17 politan city, and urban county shall submit to the
 18 Board a plan describing the proposed use of such as-
 19 sistance. The Board shall provide the appropriate
 20 amount of assistance to such State, metropolitan city,
 21 or urban county before the expiration of the 60-day
 22 period following the date of the submission of such
 23 plan, unless the Board determines before the expiration
 24 of such period that such plan is not in compliance with
 25 this section.

1 (2) **MATCHING AMOUNTS.—**

2 (A) Each grantee under this section shall be
3 required to supplement the assistance provided
4 under this section with an equal amount of funds
5 from sources other than this title. Each grantee
6 shall certify to the Board its compliance with this
7 paragraph, and shall include with such certifica-
8 tion a description of the sources and amounts of
9 such supplemental funds.

10 (B) In calculating the amount of supplemen-
11 tal funds provided by a grantee under this section,
12 a grantee may include the value of any donated
13 material or building, the value of any lease on a
14 building, any salary paid to staff to carry out the
15 program of the grantee, the value of the time con-
16 tributed by volunteers to carry out the program of
17 the grantee, and the value of services provided for
18 the program.

19 (3) **ADMINISTRATION OF ASSISTANCE.—**Each
20 grantee shall act as the fiscal agent of the Board with
21 respect to assistance provided to such grantee.

22 (4) **CERTIFICATIONS ON USE OF ASSISTANCE.—**
23 Each grantee shall certify to the Board that—

24 (A) it will maintain as a shelter for the
25 homeless for not less than a 3-year period any

1 building for which assistance is used under this
 2 section, or for not less than a 7-year period if
 3 such assistance is used for the substantial rehabili-
 4 tation of such building;

5 (B) any renovation carried out with assist-
 6 ance under this section shall be sufficient to
 7 ensure that the building involved is safe and sani-
 8 tary; and

9 (C) it will assist homeless individuals in
 10 obtaining—

11 (i) appropriate supportive services, in-
 12 cluding permanent housing, medical and
 13 mental health treatment, counseling, supervi-
 14 sion, and other services essential for achiev-
 15 ing independent living; and

16 (ii) other Federal, State, local, and pri-
 17 vate assistance available for such individuals.

18 (5) USE OF INTEREST ON ASSISTANCE.—Any in-
 19 terest received by any grantee under this section on as-
 20 sistance provided under this section shall be used in ac-
 21 cordance with this section or returned to the Board for
 22 reallocation.

23 (e) ADMINISTRATIVE PROVISIONS.—

24 (1) REGULATIONS.—Not later than the expiration
 25 of the 30-day period following the date of the enact-

1 ment of this Act, the Secretary shall by notice estab-
2 lish such requirements as may be necessary to carry
3 out the provisions of this section. Such requirements
4 shall not be subject to section 553 of title 5, United
5 States Code, or section 7(o) of the Department of
6 Housing and Urban Development Act. The Secretary
7 shall issue regulations based on the initial notice before
8 the expiration of the 12-month period following the
9 date of the enactment of this Act.

10 (2) **INITIAL ALLOCATION OF ASSISTANCE.**—Not
11 later than the expiration of the 30-day period following
12 the date of the enactment of a law providing appropria-
13 tions to carry out this section, the Board shall notify
14 each State, metropolitan city, and urban county of its
15 allocation of assistance under this section. Such assist-
16 ance shall be allocated and may be used notwithstand-
17 ing any failure of the Secretary to issue regulations
18 under paragraph (1).

19 (3) **RECAPTURE OF UNUSED ASSISTANCE.**—The
20 Board shall deobligate or recapture any assistance pro-
21 vided under this section that is not used by the grantee
22 within a reasonable period of time.

23 (f) **AUTHORIZATION OF APPROPRIATIONS.**—There are
24 authorized to be appropriated to carry out the provisions of
25 this section \$100,000,000 for fiscal year 1988. Any amount

1 appropriated under this section shall remain available until
2 expended.

3 **SEC. 105. REPORT TO CONGRESS.**

4 Not later than 6 months after the end of fiscal year
5 1988, the Board shall submit to the Congress a final report
6 summarizing all activities carried out under this title and set-
7 ting forth any findings, conclusions, or recommendations of
8 the Board as a result of such activities.

9 **SEC. 106. DEFINITIONS.**

10 For purposes of this title:

11 (1) The term "Board" means the National Emer-
12 gency Food and Shelter Board established in section
13 101(a).

14 (2) The term "elderly person" means an individ-
15 ual who is not less than 62 years of age.

16 (3) The term "handicapped person" means an in-
17 dividual having a physical, psychological, or other im-
18 pairment that substantially impedes the ability of such
19 individual to live independently without supportive
20 services.

21 (4) The term "homeless person" means an indi-
22 vidual who—

23 (A) is a lower income person, elderly person,
24 or handicapped person;

25 (B) lacks permanent housing; and

1 (C) in the case of assistance under section
2 103, cannot live independently without supportive
3 services.

4 (5) The term "housing for homeless persons"
5 means a single- or multi-family structure suitable in
6 design and size for the provision of housing and sup-
7 portive services designed to encourage independence
8 for homeless persons.

9 (6) The term "lower income person" means an in-
10 dividual whose income does not exceed 80 percent of
11 the median income of the area involved.

12 (7) The term "nonprofit organization" means any
13 governmental or private nonprofit entity that is ap-
14 proved by the Board as to financial responsibility.

15 (8) The term "operating expenses" means ex-
16 penses incurred by a nonprofit organization for any
17 program operating housing for homeless persons under
18 section 103 with respect to—

19 (A) the administration, maintenance, repair,
20 and security of such housing;

21 (B) utilities, fuel, furnishings, and equipment
22 for such housing;

23 (C) the conducting of the assessment required
24 in section 103(c)(3)(A); and

1 (D) the provision of supportive services to
2 the residents of such housing.

3 (9) The term "Secretary" means the Secretary of
4 Housing and Urban Development.

5 (10) The term "supportive services" means assist-
6 ance in obtaining permanent housing, medical and psy-
7 chological counseling and supervision, employment
8 counseling, nutritional counseling, and such other serv-
9 ices essential for maintaining independent living as the
10 Board determines to be appropriate. Such term in-
11 cludes the provision of assistance to residents of hous-
12 ing for homeless persons in obtaining other Federal,
13 State, and local assistance available for such persons,
14 including mental health benefits, employment counsel-
15 ing, and medical assistance.

16 **TITLE II—HOUSING ASSISTANCE**
17 **Subtitle A—Programs Under United**
18 **States Housing Act of 1937**

19 **PART 1—GENERAL PROVISIONS**

20 **SEC. 201. LOWER INCOME HOUSING AUTHORIZATION.**

21 (a) **AGGREGATE BUDGET AUTHORITY.**—Section 5(c)(6)
22 of the United States Housing Act of 1937 is amended by
23 adding at the end the following new sentence: "The aggre-
24 gate amount of budget authority that may be obligated for
25 contracts for annual contributions for assistance under section

1 8, for contracts referred to in paragraph (7)(A)(iv), and for
2 grants for public housing and comprehensive improvement
3 assistance, is increased by \$11,866,000,000 on October 1,
4 1987.”.

5 (b) UTILIZATION OF BUDGET AUTHORITY.—Section
6 5(c)(7) of the United States Housing Act of 1937 is amended
7 to read as follows:

8 “(7)(A) Using the additional budget authority provided
9 under paragraph (6) and the balances of budget authority that
10 become available during fiscal year 1988, the Secretary shall,
11 to the extent approved in appropriations Acts, reserve au-
12 thority to enter into obligations aggregating—

13 “(i) for public housing grants under subsection
14 (a)(2), \$826,000,000, of which amount \$144,000,000
15 shall be available for Indian housing;

16 “(ii) for assistance under section 8(b)(1),
17 \$6,170,000,000;

18 “(iii) for assistance under section 8(e)(2),
19 \$646,000,000;

20 “(iv) for assistance under section 8 in connection
21 with projects developed under section 202 of the Hous-
22 ing Act of 1959, \$1,667,000,000;

23 “(v) for comprehensive improvement assistance
24 grants under section 14(k), \$1,500,000,000;

1 “(vi) for assistance under section 8 for property
2 disposition, \$472,000,000; and

3 “(vii) for assistance under section 8 for loan man-
4 agement, \$585,000,000.

5 “(B)(i) Any amount available for Indian housing under
6 subsection (a) that is recaptured may be used only for such
7 housing.

8 “(ii) Any amount available for the conversion of a
9 project to assistance under section 8(b)(1), if not required for
10 such purpose, shall be used for assistance under section
11 8(b)(1).

12 “(iii) Any amount available for assistance under section
13 8 for property disposition, if not required for such purpose,
14 shall be used for assistance under section 8(b)(1).”.

15 **SEC. 202. TENANT RENTAL CONTRIBUTIONS.**

16 **(a) PUBLIC HOUSING ECONOMIC RENT.**—Section 3(a)
17 of the United States Housing Act of 1937 is amended—

18 (1) by inserting “(1)” after “(a)”;

19 (2) in the last sentence, by striking “A” and in-
20 serting the following: “Except as provided in para-
21 graph (2), a”;

22 (3) by redesignating paragraphs (1) through (3) as
23 subparagraphs (A) through (C), respectively; and

24 (4) by adding at the end the following new
25 paragraph:

1 “(2) Any public housing agency may provide that each
2 family residing in a public housing project owned and operat-
3 ed by such agency shall pay as monthly rent an amount de-
4 termined by such agency to be appropriate that does not
5 exceed a maximum amount that—

6 “(A) is established by such agency and approved
7 by the Secretary;

8 “(B) is not more than the amount payable as rent
9 by such family under paragraph (1); and

10 “(C) is not less than whichever of the following is
11 lower:

12 “(i) The average monthly amount of debt
13 service and operating expenses attributable to
14 dwelling units of similar size in public housing
15 projects owned and operated by such agency.

16 “(ii) The fair market rentals established in
17 the housing area for dwelling units under section
18 8(b)(1).”.

19 (b) ADJUSTED INCOME.—Section 3(b)(5) of the United
20 States Housing Act of 1937 is amended—

21 (1) by striking “and” at the end of subpara-
22 graph (C);

23 (2) by striking the period at the end of subpara-
24 graph (D) and inserting “; and”; and

1 (3) by adding at the end the following new sub-
2 paragraph:

3 “(E) 10 percent of the earned income of the
4 family, in the case of a family in which any
5 member pays taxes imposed under chapter 2 or
6 21 of the Internal Revenue Code of 1954.”.

7 (c) UTILITY ALLOWANCE.—

8 (1) Section 3(c) of the United States Housing Act
9 of 1937 is amended by adding at the end the following
10 new paragraph:

11 “(4) The term ‘rent’ means—

12 “(A) the amount payable by a family to a public
13 housing agency for shelter; and

14 “(B) in any case in which a family is required to
15 make a separate payment to a public housing agency
16 or a utility supplier based on actual utility consump-
17 tion, an allowance established annually based on actual
18 utility consumption (excluding telephone service) for
19 each size and type of dwelling unit.”.

20 (2) Section 3(a) of the United States Housing Act
21 of 1937 (as amended by subsection (a) of this section)
22 is further amended by adding at the end the following
23 new paragraph:

24 “(3) In return for the payment made pursuant to this
25 subsection, the family shall be entitled to receive housing,

1 including all necessary appurtenances, equipment and serv-
2 ices, and reasonable use of utilities (excluding telephone).
3 The allowance for reasonable use of utilities shall be estab-
4 lished annually based upon actual utility consumption for
5 each size and type of dwelling units, but shall exclude unrea-
6 sonable or wasteful usage. If a family is required to make a
7 separate payment to a utility supplier for utility consumption,
8 the allowance for reasonable use of such utilities shall be
9 deducted from the rental payment of the family to the
10 landlord.”.

11 (d) RENT PHASE-IN.—Section 3 of the United States
12 Housing Act of 1937 is amended by adding at the end the
13 following new subsection:

14 “(d) In any case in which the obtaining of employment
15 by a resident of a dwelling unit assisted under this Act will
16 result in an increase in the rent payable by the family of such
17 resident under subsection (a), the public housing agency in-
18 volved (or the Secretary, if no public housing agency is in-
19 volved) may provide for a gradual increase in such rent to the
20 full amount during a period of not more than 6 months.”.

21 SEC. 203. INCOME ELIGIBILITY FOR ASSISTED HOUSING.

22 Section 16 of the United States Housing Act of 1937 is
23 amended to read as follows:

24 “INCOME ELIGIBILITY FOR ASSISTED HOUSING

25 “SEC. 16. Of the aggregate dwelling units that are
26 available for occupancy under public housing annual contri-

1 butions contracts and section 8 housing assistance payments
2 contracts under this Act, 25 percent shall be available for
3 leasing by lower income families other than very low-income
4 families.”.

5 PART 2—PUBLIC HOUSING

6 SEC. 211. PUBLIC HOUSING MANAGEMENT SIMPLIFICATION.

7 Section 2 of the United States Housing Act of 1937 is
8 amended—

9 (1) by inserting “(a)” after the section designation;
10 and

11 (2) by adding at the end the following new
12 subsection:

13 “(b)(1) To encourage efficient and effective administra-
14 tion of public housing by public housing agencies, to increase
15 the amount of responsibility of these agencies for administer-
16 ing their public housing, and to minimize Federal involve-
17 ment in the administration of public housing, the Secretary
18 shall establish a system under which public housing agencies
19 are permitted to certify compliance with—

20 “(A) voluntary professional performance standards
21 established by the public housing profession for certify-
22 ing public housing agencies as efficient and well man-
23 aged; and

24 “(B) other requirements established by the Secre-
25 tary for purposes of substantially simplifying the proce-

1 dure for receiving assistance under section 9 or 14 of
2 the United States Housing Act of 1937.

3 “(2) The provisions of paragraph (1) shall not apply if—

4 “(A) the Secretary determines that there is a rea-
5 sonable basis to conclude that prior review and approv-
6 al of one or more specific activities is necessary to
7 ensure efficient and effective conduct of the activity
8 throughout the program;

9 “(B) the Secretary determines that there is a rea-
10 sonable basis to conclude that prior review and approv-
11 al is necessary with respect to a particular public hous-
12 ing agency due to such factors as its inexperience or
13 poor performance in carrying out the same or related
14 activities; or

15 “(C) prior review or approval by the Secretary is
16 required by law.”.

17 **SEC. 212. GRANTS FOR PUBLIC HOUSING DEVELOPMENT.**

18 (a) **AUTHORITY TO PROVIDE GRANTS.**—Section 5(a) of
19 the United States Housing Act of 1937 is amended to read as
20 follows:

21 “(a)(1) The Secretary may make annual contributions to
22 public housing agencies to assist in achieving and maintaining
23 the lower income character of their projects. The Secretary
24 shall embody the provisions for such annual contributions in a
25 contract guaranteeing their payment. The contribution pay-

1 able annually under this section shall in no case exceed a sum
2 equal to the annual amount of principal and interest payable
3 on obligations issued by the public housing agency to finance
4 the development or acquisition cost of the lower income
5 project involved. Annual contributions payable under this
6 section shall be pledged, if the Secretary so requires, as secu-
7 rity for obligations issued by a public housing agency to assist
8 the development or acquisition of the project to which annual
9 contributions relate and shall be paid over a period not to
10 exceed 40 years.

11 “(2) The Secretary may make contributions (in the form
12 of grants) to public housing agencies to cover the develop-
13 ment cost of public housing projects. The contract under
14 which such contributions shall be made shall specify the
15 amount of capital contributions required for each project to
16 which the contract pertains, and that the terms and condi-
17 tions of such contract shall remain in effect for a 40-year
18 period.

19 “(3) The amount of contributions that would be estab-
20 lished for a newly constructed project by a public housing
21 agency designed to accommodate a number of families of a
22 given size and kind may be established under this section for
23 a project by such public housing agency that would provide
24 housing for the comparable number, sizes, and kinds of fami-
25 lies through the acquisition and rehabilitation, or use under

1 lease, of structures that are suitable for lower income housing
2 use and obtained in the local market.”.

3 (b) CONFORMING AMENDMENTS.—

4 (1) Section 5 of the United States Housing Act of
5 1937 is amended—

6 (A) by striking “ANNUAL” in the section
7 heading; and

8 (B) by striking “annual” in subsection (e)(2).

9 (2) Section 6 of the United States Housing Act of
10 1937 is amended by striking “annual” the first place it
11 appears in the first sentence of subsection (g), and each
12 place it appears in subsection (d) and the first sentence
13 of each of subsections (a) and (c).

14 (3) Section 7 of the United States Housing Act of
15 1937 is amended by striking “annual” in the proviso in
16 the first sentence.

17 (4) Section 9(a)(2) of the United States Housing
18 Act of 1937 is amended—

19 (A) by striking “being assisted by an annual
20 contributions contract authorized by section 5(c)”
21 and inserting the following: “one developed pursu-
22 ant to a contributions contract authorized by sec-
23 tion 5”; and

24 (B) by striking “any such annual” and insert-
25 ing “any such”.

1 (5) Section 12 of the United States Housing Act
2 of 1937 is amended by striking "annual".

3 (6) Section 14 of the United States Housing Act
4 of 1937 is amended—

5 (A) by striking "receive assistance under sec-
6 tion 5(c)" in subsection (c)(2) and inserting "as-
7 sisted under section 5"; and

8 (B) by striking "annual" in each of para-
9 graphs (2) and (4)(C) of subsection (d).

10 (7) Section 15 of the United States Housing Act
11 of 1937 is amended by striking "with loans or debt
12 service annual contributions" in clause (2).

13 (8) Section 16(b) of the United States Housing
14 Act of 1937 is amended by striking "annual".

15 (9) Section 18(c) of the United States Housing
16 Act of 1937 is amended by striking "annual contribu-
17 tions authorized under section 5(c)" and inserting
18 "contributions authorized under section 5".

19 **SEC. 213. LIMITATION ON PUBLIC HOUSING DEVELOPMENT**
20 **AND ASSURANCE OF PUBLIC HOUSING QUALITY**
21 **STANDARDS.**

22 Section 5 of the United States Housing Act of 1937 is
23 amended by adding at the end the following new subsection:

24 "(j)(1) After September 30, 1987, in providing assist-
25 ance under this Act to a public housing agency for public

1 housing (other than for Indian families), the Secretary shall
2 reserve funds for the development of public housing only if—

3 “(A) the Secretary determines that additional
4 amounts are required to complete the development of
5 dwelling units for which amounts are obligated on or
6 before such date;

7 “(B) the public housing agency certifies to the
8 Secretary that 85 percent of the public housing dwell-
9 ing units of the public housing agency—

10 “(i) are maintained in substantial compliance
11 with the housing quality standards established by
12 the Secretary under section 8(o)(6); or

13 “(ii) will be so maintained upon completion
14 of modernization for which funding has been
15 awarded or for which applications are pending
16 under section 14 or 20 or under a comparable
17 State or local government program (and such ap-
18 plications shall comply with the comprehensive
19 plan of the public housing agency developed under
20 such section 14 or 20);

21 “(C) the public housing agency certifies that such
22 development—

23 “(i) will replace dwelling units that are dis-
24 posed of or demolished by the public housing
25 agency, including dwelling units disposed of or

1 lost through sale to tenants or through units rede-
2 sign; or

3 “(ii) is required to comply with court orders
4 or directions of the Secretary;

5 “(D) the public housing agency certifies that it
6 has demands for family housing not satisfied by the
7 rental assistance programs established in subsection (b)
8 or (c) of section 8 for which it plans to construct or
9 acquire projects of not more than 100 units; or

10 “(E) the Secretary makes such reservation under
11 paragraph (2).

12 “(2) Notwithstanding any other provision of law, not
13 more than 20 percent of the funds appropriated for develop-
14 ment of public housing also may be committed by the Secre-
15 tary for the substantial redesign, reconstruction, or redevel-
16 opment of existing public housing projects or units, which
17 work shall be carried out pursuant to the rules and regula-
18 tions applicable to the development of public housing.”.

19 SEC. 214. LIMITATION ON RECAPTURE OF FUNDING RESER-
20 VATIONS.

21 Section 5 of the United States Housing Act of 1937 (as
22 amended by section 213 of this Act) is further amended by
23 adding at the end the following new subsection:

24 “(k) After the reservation of public housing development
25 funds to a public housing agency, the Secretary may not re-

1 capture any of the amounts included in such reservation due
2 to the failure of a public housing agency to begin construction
3 or rehabilitation, or to complete acquisition, during the 30-
4 month period following the date of such reservation. During
5 such 30-month period, the public housing agency shall be
6 permitted to change the site of the public housing project or
7 reformulate the project, if not less than the original number
8 of dwelling units are to be constructed, rehabilitated, or ac-
9 quired. There shall be excluded from the computation of such
10 30-month period any delay in the beginning of construction
11 or rehabilitation of such project caused by (1) the failure of
12 the Secretary to process such project within a reasonable
13 period of time; (2) any environmental review requirement; (3)
14 any legal action affecting such project; or (4) any other factor
15 beyond the control of the public housing agency.”.

16 **SEC. 215. PUBLIC HOUSING NEW CONSTRUCTION.**

17 Section 6(h) of the United States Housing Act of 1937
18 is amended—

19 (1) by inserting before “is” the following: “in the
20 neighborhood where the public housing agency deter-
21 mines the housing is needed”; and

22 (2) by inserting “in such neighborhood” after
23 “rehabilitation”.

24 **SEC. 216. PUBLIC HOUSING CHILD CARE GRANTS.**

25 (a) **PROGRAM AUTHORITY.**—

1 (1) The Secretary of Housing and Urban Develop-
2 ment shall, to the extent approved in appropriation
3 Acts, carry out a demonstration program of making
4 grants to public housing agencies to assist such agen-
5 cies in providing child care services for lower income
6 families who reside in public housing.

7 (2) The Secretary shall design the program de-
8 scribed in paragraph (1) to determine the extent to
9 which the availability of child care services in lower
10 income housing projects facilitates the employability of
11 the parents or guardians of children residing in public
12 housing.

13 (3) The program described in paragraph (1) shall
14 be in addition to any demonstration program carried
15 out under section 222 of the Housing and Urban-Rural
16 Recovery Act of 1983.

17 (b) ELIGIBILITY FOR ASSISTANCE.—The Secretary
18 may make a grant to any public housing agency under this
19 section only if—

20 (1) prior to receipt of assistance under this sec-
21 tion, such public housing agency does not have a child
22 care services program in operation in the project for
23 which such assistance is requested;

1 (2) such public housing agency agrees to provide
2 suitable facilities for the provision of child care
3 services;

4 (3) the child care services program of such public
5 housing agency will serve preschool children during the
6 day, school children after school, or both, in order to
7 permit the parents or guardians of such children to
8 obtain, retain, or train for employment;

9 (4) the child care services program of such public
10 housing agency is designed, to the extent practicable,
11 to involve the participation of the parents of children
12 benefiting from such program;

13 (5) the child care services program of such public
14 housing agency is designed, to the extent practicable,
15 to employ in part-time positions elderly individuals who
16 reside in the lower income housing project involved;
17 and

18 (6) the child care services program of such public
19 housing agency complies with all applicable State and
20 local laws, regulations, and ordinances.

21 (c) ALLOCATION OF ASSISTANCE.—In providing grants
22 under this section, the Secretary shall—

23 (1) give priority to lower income housing projects
24 in which reside the largest number of preschool and
25 school children of lower income families;

1 (2) seek to ensure a reasonable distribution of
2 such grants between urban and rural areas and among
3 lower income housing projects of varying sizes; and

4 (3) seek to provide such grants to the largest
5 number of lower income housing projects practicable,
6 considering the amount of funds available under this
7 section and the financial requirements of the particular
8 child care services programs to be developed by the
9 applicant public housing agencies.

10 (d) ADMINISTRATIVE PROVISIONS.—

11 (1) Applications for grants under this section shall
12 be made by public housing agencies in such form, and
13 according to such procedures, as the Secretary may
14 prescribe.

15 (2) Any public housing agency receiving a grant
16 under this section may use such grant only for operat-
17 ing expenses and minor renovations of facilities neces-
18 sary to the provision of child care services under this
19 section.

20 (3) The Secretary shall conduct periodic evalua-
21 tions of each child care services program assisted under
22 this section for purposes of—

23 (A) determining the effectiveness of such pro-
24 gram in providing child care services and permit-
25 ting the parents or guardians of children residing

1 in public housing to obtain, retain, or train for
2 employment; and

3 (B) ensuring compliance with the provisions
4 of this section.

5 (4) No provision of this section may be construed
6 to authorize the Secretary to establish any health,
7 safety, educational, or other standards with respect to
8 child care services or facilities assisted with grants re-
9 ceived under this section. Such services and facilities
10 shall comply with all applicable State and local laws,
11 regulations, and ordinances, and all requirements es-
12 tablished by the Secretary of Health and Human Serv-
13 ices for child care services and facilities.

14 (e) REPORT TO CONGRESS.—Not later than the expira-
15 tion of the 3-year period following the date of the enactment
16 of this Act, the Secretary shall prepare and submit to the
17 Congress a detailed report setting forth the findings and con-
18 clusions of the Secretary as a result of carrying out the dem-
19 onstration program established in this section. Such report
20 shall include any recommendations of the Secretary with re-
21 spect to the establishment of a permanent program of assist-
22 ing child care services in lower income housing projects.

23 (f) DEFINITIONS.—For purposes of this section:

1 (1) The term "lower income families" has the
2 meaning given such term in section 3(b)(2) of the
3 United States Housing Act of 1937.

4 (2) The terms "lower income housing project"
5 and "public housing" have the meanings given such
6 terms in section 3(b)(1) of the United States Housing
7 Act of 1937.

8 (3) The term "public housing agency" has the
9 meaning given such term in section 3(b)(6) of the
10 United States Housing Act of 1937.

11 (4) The term "Secretary" means the Secretary of
12 Housing and Urban Development.

13 (g) **AUTHORIZATION OF APPROPRIATIONS.**—There is
14 authorized to be appropriated to carry out the provisions of
15 this section \$15,000,000 for fiscal year 1988. Any amount
16 appropriated under this subsection shall remain available
17 until expended.

18 **SEC. 217. PAYMENTS FOR OPERATION OF LOWER INCOME**
19 **HOUSING PROJECTS.**

20 (a) **PERFORMANCE FUNDING SYSTEM.**—Section 9(a) of
21 the United States Housing Act of 1937 is amended—

22 (1) by striking the last sentence of paragraph (1);
23 and

24 (2) by adding at the end the following new
25 paragraph:

1 “(3)(A) For purposes of making payments under this
2 section, the Secretary shall utilize a performance funding
3 system that is substantially based on the system defined in
4 regulations and in effect on the date of the enactment of the
5 Housing and Community Development Act of 1987 (as modi-
6 fied by this paragraph), and that establishes standards for
7 costs of operation and reasonable projections of income,
8 taking into account the character and location of the project
9 and the characteristics of the families served, in accordance
10 with a formula representing the operations of a prototype
11 well-managed project. Such performance funding system
12 shall be established in consultation with public housing agen-
13 cies and their associations, be contained in a regulation pro-
14 mulgated by the Secretary prior to the start of any fiscal year
15 to which it applies, and remain in effect for the duration of
16 such fiscal year without change.

17 “(B) Under the performance funding system established
18 under this paragraph—

19 “(i) in the first year that the reductions occur, any
20 public housing agency shall share equally with the Sec-
21 retary any cost reductions due to the differences be-
22 tween projected and actual utility rates attributable to
23 actions taken by the agency which lead to such
24 reductions;

1 “(ii) there shall be a formal review process for the
2 purpose of providing such revisions to the allowable
3 expense level of a public housing agency as
4 necessary—

5 “(I) to correct inequities and abnormalities
6 that exist in the base year expense level of such
7 public housing agency;

8 “(II) to reflect changes in operating circum-
9 stances since the initial determination of such base
10 year expense level; and

11 “(III) to ensure that the allowable expense
12 limit accurately reflects the higher cost of operat-
13 ing the project in an economically distressed unit
14 of local government and the lower cost of operat-
15 ing the project in an economically prosperous unit
16 of local government;

17 “(iii) public housing agencies shall be reimbursed
18 for costs incurred that were beyond their control and
19 the full extent of which were not taken into consider-
20 ation in the original distribution of funds for the fiscal
21 year involved;

22 “(iv) the estimate of the rental income for the
23 next fiscal year of a public housing agency shall be
24 based on the actual rent for the fourth, fifth, or sixth

1 month prior to the beginning of the new fiscal year of
2 the public housing agency;

3 “(v) any revenues resulting from rental income or
4 other income (including investment income) in excess of
5 estimated revenues from such items may not be recap-
6 tured, used, or computed to reduce assistance provided
7 under this section, unless such estimate—

8 “(I) was unreasonable according to regula-
9 tions in effect when the estimate was made; or

10 “(II) was fraudulent and deceptive; and

11 “(vi) if a public housing agency redesigns or sub-
12 stantially rehabilitates a public housing project so that
13 2 or more dwelling units are combined to create a
14 single larger dwelling unit, the payments received
15 under this section shall not be reduced solely because
16 of the resulting reduction in the number of dwelling
17 units if not less than the same number of individuals
18 will reside in the new larger dwelling unit as resided in
19 the dwelling units that were combined to form such
20 larger dwelling unit.”.

21 (b) AUTHORIZATION OF APPROPRIATIONS.—Section
22 9(c) of the United States Housing Act of 1937 is amended to
23 read as follows:

1 “(c) There are authorized to be appropriated, for the
2 purpose of providing annual contributions under this section,
3 \$1,600,000,000 for fiscal year 1988.”.

4 (c) TIME OF PAYMENT.—Section 9 of the United States
5 Housing Act of 1937 is amended by adding at the end the
6 following new subsection:

7 “(e) In the case of any public housing agency that sub-
8 mits its budget for any fiscal year of such agency to the Sec-
9 retary in a timely manner in accordance with the regulations
10 issued by the Secretary under this section, assistance to be
11 provided to such agency under this section for such fiscal
12 year shall commence not later than the 1st month of such
13 fiscal year, and shall be paid in equal monthly or quarterly
14 installments or in accordance with such other payment sched-
15 ule as may be agreed upon by the Secretary and such
16 agency.”.

17 SEC. 218. GRANTS FOR COMPREHENSIVE IMPROVEMENT
18 ASSISTANCE.

19 (a) AUTHORITY TO PROVIDE GRANTS.—Section 14 of
20 the United States Housing Act of 1937 is amended by adding
21 at the end the following new subsection:

22 “(k) The Secretary may make contributions (in the form
23 of grants) to public housing agencies under this section. The
24 contract under which such contributions shall be made shall
25 specify the amount of contributions required for each project

1 to which the contract pertains, and that the terms and condi-
 2 tions of such contract shall remain in effect for a 20-year
 3 period.”.

4 (b) CONFORMING AMENDMENTS.—

5 (1) Section 14(e) of the United States Housing
 6 Act of 1937 is amended by striking “annual”.

7 (2) Section 14 of the United States Housing Act
 8 of 1937 is amended by inserting “or (k)” after “subsec-
 9 tion (b)” each place it appears in subsections (c), (d),
 10 (e), (g), (h), and (i).

11 SEC. 219. PUBLIC HOUSING DEMOLITION AND DISPOSITION.

12 (a) LIMITATIONS.—Section 18 of the United States
 13 Housing Act of 1937 is amended—

14 (1) in subsection (a)(1), by striking “or” after
 15 “purposes,” and inserting “and”; and

16 (2) in subsection (b)—

17 (A) by striking “and” at the end of para-
 18 graph (1);

19 (B) by striking the period at the end of para-
 20 graph (2) and inserting “; and”; and

21 (C) by adding at the end the following new
 22 paragraph:

23 “(3) the public housing agency has developed a
 24 plan (and the Secretary has agreed to provide funding
 25 for such plan if necessary) that provides for—

1 “(A) the addition of public housing dwelling
2 units in an aggregate number equal to the number
3 of such units proposed to be demolished or dis-
4 posed under such application except that—

5 “(i) such 1-for-1 replacement require-
6 ment shall not apply if the Secretary deter-
7 mines that there is no local need for low-
8 income housing, which determination shall be
9 based on objective information (provided by
10 the public housing agency and other persons
11 interested in the provision of low-income
12 housing) that includes rates of participation
13 by landlords in the section 8 program, size,
14 conditions and rent levels of available rental
15 housing as compared to section 8 standards,
16 the supply of vacant existing housing with
17 rents at or below the fair market rent or
18 payment standard or the likelihood of adjust-
19 ing the fair market rent or payment stand-
20 ard, and the extent of discrimination against
21 the types of individuals or families to be
22 served by the assistance; and

23 “(ii) if necessary funding for public
24 housing dwelling units is not available, there
25 may be substituted dwelling units assisted

1 with project-based assistance under section 8
 2 or the acquisition or development of dwelling
 3 units assisted under a State or local govern-
 4 ment program that provides for project-based
 5 assistance comparable in terms of eligibility,
 6 contribution to rent, and length of assistance
 7 contract (not less than 15 years) to that
 8 available under section 8(b)(1), or any combi-
 9 nation of such methods; and

10 “(B) the payment of the relocation expenses
 11 of each tenant to be displaced and ensures that
 12 the rent paid by the tenant following relocation
 13 will not exceed the amount permitted under this
 14 Act.”.

15 (b) **APPLICABILITY.**—Section 18 of the United States
 16 Housing Act of 1937 is amended by striking subsection (d).

17 **SEC. 220. PUBLIC HOUSING COMPREHENSIVE GRANTS.**

18 (a) **IN GENERAL.**—The United States Housing Act of
 19 1937 is amended by adding at the end the following new
 20 section:

21 “**COMPREHENSIVE GRANT PROGRAM**

22 “**SEC. 20. (a) PURPOSE.**—It is the purpose of this
 23 section—

24 “(1) to provide assistance on a reliable basis to
 25 public housing agencies to enable them to operate, up-
 26 grade, modernize, and rehabilitate public housing

1 projects financed under the United States Housing Act
2 of 1937 to ensure their continued availability for the
3 benefit of lower income families as decent, safe, and
4 sanitary rental housing at affordable rents;

5 “(2) to increase the reliability of Federal assist-
6 ance for capital improvements in public housing
7 projects;

8 “(3) to significantly simplify the program of Fed-
9 eral assistance for capital improvements in public hous-
10 ing projects;

11 “(4) to provide increased opportunities and incen-
12 tives for more efficient management of public housing
13 projects; and

14 “(5) to afford public housing agencies greater con-
15 trol in planning for the maintenance and improvement
16 of public housing projects to benefit lower income
17 families.”.

18 “(b) AUTHORITY TO PROVIDE FINANCIAL ASSIST-
19 ANCE.—

20 “(1) IN GENERAL.—The Secretary may make
21 available, and (to the extent of amounts provided in ap-
22 propriation Acts) contract to make available, financial
23 assistance to public housing agencies in accordance
24 with the provisions of this section with respect to

1 public housing (as defined in section 3(b)(1)) owned or
2 operated by such agencies.

3 “(2) GRANTS.—The Secretary may make contri-
4 butions (in the form of grants) to public housing agen-
5 cies under this section. The contract under which such
6 contributions shall be made shall specify the amount of
7 contributions required for each project to which the
8 contract pertains, and that the terms and conditions of
9 such contract shall remain in effect for a 20-year
10 period.

11 “(c) COMPREHENSIVE PLAN.—No financial assistance
12 may be made available to a public housing agency under this
13 section unless the Secretary approves a 5-year comprehen-
14 sive plan submitted by the public housing agency on a date
15 determined by the Secretary, except that the Secretary may
16 provide such assistance if it is necessary to correct conditions
17 that constitute an immediate threat to the health or safety of
18 tenants. The comprehensive plan shall contain—

19 “(1) a comprehensive assessment of—

20 “(A) the current physical condition of each
21 public housing project owned or operated by the
22 public housing agency;

23 “(B) the physical improvements necessary for
24 each such project to permit the project—

1 “(i) to be rehabilitated to a level at
2 least equal to the minimum property stand-
3 ards established by the Secretary and in
4 effect at the time of the preparation of the
5 comprehensive plan; and

6 “(ii) to comply with life-cycle cost-effec-
7 tive energy conservation performance stand-
8 ards established by the Secretary to ensure
9 the lowest total rehabilitation and operating
10 costs over the estimated life of the building;
11 and

12 “(C) the replacement needs of equipment
13 systems and structural elements that will be re-
14 quired to be met (assuming routine and timely
15 maintenance is performed) during the 5-year
16 period covered by the comprehensive plan;

17 “(2) a comprehensive assessment of the improve-
18 ments needed to upgrade the management and oper-
19 ation of the public housing agency and of each such
20 project so that decent, safe, and sanitary living condi-
21 tions will be provided such projects, which assessment
22 shall include at least an identification of needs related
23 to—

1 “(A) the management, financial, and ac-
2 counting control systems of the public housing
3 agency that are related to such projects;

4 “(B) the adequacy and qualifications of per-
5 sonnel employed by the public housing agency (in
6 the management and operation of such projects)
7 for each category of employment; and

8 “(C) the adequacy and efficacy of—

9 “(i) tenant programs and services in
10 such projects;

11 “(ii) the security of each such project
12 and its tenants;

13 “(iii) policies and procedures of the
14 public housing agency for the selection and
15 eviction of tenants in such projects; and

16 “(iv) other policies and procedures of
17 the public housing agency relating to such
18 projects, as specified by the Secretary;

19 “(3) an analysis, made on a project-by-project
20 basis in accordance with standards and criteria pre-
21 scribed by the Secretary, demonstrating that comple-
22 tion of the improvements and replacements identified
23 under paragraphs (1) and (2) will reasonably ensure the
24 long-term physical and social viability of each such
25 project at a reasonable cost;

1 “(4) an action plan for making the improvements
2 and replacements identified under paragraphs (1) and
3 (2) that are determined under the analysis described in
4 paragraph (3) to reasonably ensure long-term viability
5 of each such project at a reasonable cost, which action
6 plan shall include at least a schedule, in order of priori-
7 ty, of the actions that are to be completed over a
8 period of not more than 5 years from the date of ap-
9 proval of the comprehensive plan by the Secretary and
10 that are necessary—

11 “(A) to make the improvements and replace-
12 ments identified under paragraph (1) for each
13 project expected to receive capital improvements
14 or replacements; and

15 “(B) to upgrade the management and oper-
16 ation of the public housing agency and its public
17 housing projects as described in paragraph (2);

18 “(5) a statement, to be signed by the chief local
19 government official (or Indian tribal official, if appropri-
20 ate), certifying that—

21 “(A) the comprehensive plan was developed
22 by the public housing agency in consultation with
23 appropriate local government officials (or Indian
24 tribal officials, if appropriate) and with tenants of
25 the housing projects eligible for assistance under

1 this section, which shall include not less than 2
 2 public hearings (i) at least one of which shall be
 3 held prior to the initial adoption of any plan by
 4 the public housing agency for use of such assist-
 5 ance, and afford tenants and interested parties an
 6 opportunity to summarize their priorities and con-
 7 cerns, to ensure their due consideration in the
 8 planning process of the public housing agency;
 9 and (ii) at least one of which shall be held prior to
 10 final submission of the plan to the Department of
 11 Housing and Urban Development for its approval,
 12 to provide tenants and other interested parties an
 13 opportunity to comment on the plan of action pro-
 14 posed by the public housing agency in its submis-
 15 sion; and

16 “(B) the comprehensive plan is consistent
 17 with the assessment of the community of its lower
 18 income housing needs and that the unit of general
 19 local government (or Indian tribe, if appropriate)
 20 will cooperate in the provision of tenant programs
 21 and services (as defined in section 3(c)(2));

22 “(6) a statement, to be signed by the chief public
 23 housing official, certifying that the public housing
 24 agency will carry out the comprehensive plan in con-
 25 formity with title VI of the Civil Rights Act of 1964,

1 title VIII of the Act of April 11, 1968 (commonly
2 known as the Civil Rights Act of 1968), and section
3 504 of the Rehabilitation Act of 1973;

4 “(7) a preliminary estimate of the total cost of the
5 items identified in paragraphs (1) and (2), including a
6 preliminary estimate of the costs that will be incurred
7 during each year covered by the comprehensive plan;
8 and

9 “(8) such other information as the Secretary may
10 require.

11 “(d) REVIEW OF COMPREHENSIVE PLANS.—

12 “(1) STANDARD FOR APPROVAL.—The Secretary
13 shall approve a comprehensive plan unless—

14 “(A) the comprehensive plan is incomplete;

15 “(B) on the basis of available significant facts
16 and data pertaining to the physical and operation-
17 al condition of the public housing projects of the
18 public housing agency or the management and op-
19 erations of the public housing agency, the Secre-
20 tary determines that the identification by the
21 public housing agency of needs is plainly incon-
22 sistent with such facts and data;

23 “(C) on the basis of the comprehensive plan,
24 the Secretary determines that the action plan de-
25 scribed in subsection (c)(4) is plainly inappropriate

1 to meeting the needs identified in the comprehen-
 2 sive plan, or that the public housing agency has
 3 failed to demonstrate that completion of improve-
 4 ments and replacements identified under para-
 5 graphs (1) and (2) of subsection (c) will reasonably
 6 ensure long-term viability of one or more public
 7 housing projects to which they relate at a reason-
 8 able cost; or

9 “(D) there is evidence available to the Secre-
 10 tary that tends to challenge in a substantial
 11 manner any certification contained in the compre-
 12 hensive plan.

13 “(2) SCHEDULE FOR APPROVAL.—The compre-
 14 hensive plan shall be considered to be approved, unless
 15 the Secretary notifies the public housing agency in
 16 writing within 75 calendar days of submission that the
 17 Secretary has disapproved the comprehensive plan as
 18 submitted, indicating the reasons for disapproval and
 19 modifications required to make the comprehensive plan
 20 approvable.

21 “(e) ANNUAL STATEMENT.—

22 “(1) SUBMISSION.—Each public housing agency
 23 receiving assistance under this section shall submit to
 24 the Secretary, at a date determined by the Secretary,
 25 an annual statement of the activities and expenditures

1 projected to be funded, in whole or in part, by such
2 assistance during the immediately following fiscal year
3 of the public housing agency. The annual statement
4 shall include a certification by the public housing
5 agency that the proposed activities and expenditures
6 are consistent with the approved comprehensive plan of
7 the public housing agency. The annual statement also
8 shall include a certification that the public housing
9 agency has provided the tenants of the public housing
10 and other interested parties the opportunity to review
11 the annual statement and comment on it, and that such
12 comments have been taken into account in formulating
13 the annual statement as submitted to the Secretary.

14 “(2) PROPOSED AMENDMENTS TO COMPREHEN-
15 SIVE PLAN.—A public housing agency may propose an
16 amendment to its comprehensive plan under subsection
17 (c) in any annual statement. Any such proposed
18 amendment shall be reviewed in accordance with sub-
19 section (d), and shall include a certification that (A) the
20 proposed amendment has been made publicly available
21 for comment prior to its submission; (B) tenants and
22 other interested parties have been given sufficient time
23 to review and comment on it; and (C) such comments
24 have been taken into consideration in the preparation
25 and submission of the amendment.

1 “(3) APPROVAL.—The Secretary shall approve
2 the annual statement unless the Secretary determines
3 that it is inconsistent with the comprehensive plan.
4 The annual statement shall be considered to be ap-
5 proved, unless the Secretary notifies the public housing
6 agency in writing before the expiration of the 75-day
7 period following submission of the annual statement
8 that the Secretary has disapproved the annual state-
9 ment as submitted, indicating the reasons for disap-
10 proval and the modifications required to make the
11 annual statement approvable. The annual statement
12 shall be approved before the public housing agency re-
13 ceives any assistance under this section for the fiscal
14 year to which the annual statement relates.

15 “(f) ANNUAL PERFORMANCE REPORTS; REVIEWS AND
16 AUDITS.—

17 “(1) PERFORMANCE AND EVALUATION RE-
18 PORTS.—Each public housing agency receiving assist-
19 ance under this section shall submit to the Secretary,
20 on a date determined by the Secretary, a performance
21 and evaluation report concerning the use of funds made
22 available under this section. The report of the public
23 housing agency shall include an assessment by the
24 public housing agency of the relationship of such use of
25 funds made available under this section, as well as the

1 use of other funds, to the needs identified in the com-
 2 prehensive plan of the public housing agency and to
 3 the purposes of this section. The public housing agency
 4 shall certify that the report has been made available
 5 for review and comment by tenants and other interest-
 6 ed parties prior to its submission to the Secretary.

7 “(2) **REVIEWS BY SECRETARY.**—The Secretary
 8 shall, at least on an annual basis, make such reviews
 9 as may be necessary or appropriate to determine
 10 whether each public housing agency receiving assist-
 11 ance under this section—

12 “(A) has carried out its activities under this
 13 section in a timely manner and in accordance with
 14 its comprehensive plan;

15 “(B) has a continuing capacity to carry out
 16 its comprehensive plan in a timely manner;

17 “(C) has satisfied, or has made reasonable
 18 progress towards satisfying, such performance
 19 standards as shall be prescribed by the Secretary,
 20 and has made reasonable progress in carrying out
 21 modernization projects approved under this
 22 section.

23 “(3) **AUDITS OF FINANCIAL TRANSACTIONS.**—
 24 Recipients of assistance under this section shall have
 25 an audit made in accordance with chapter 75 of title

1 31, United States Code. The Secretary, the Inspector
 2 General of the Department of Housing and Urban De-
 3 velopment, and the Comptroller General of the United
 4 States shall have access to all books, documents,
 5 papers, or other records that are pertinent to the ac-
 6 tivities carried out under this section in order to make
 7 audit examinations, excerpts, and transcripts.

8 “(4) **CORRECTIVE ACTION.**—The comprehensive
 9 plan, any amendments to the comprehensive plan, and
 10 the annual statement shall, once approved by the Sec-
 11 retary, be binding upon the Secretary and the public
 12 housing agency. The Secretary may order corrective
 13 action only if the public housing agency does not
 14 comply with paragraph (1) or (2) or if an audit under
 15 paragraph (3) reveals findings that the Secretary rea-
 16 sonably believes require such corrective action. The
 17 Secretary may withhold funds under this section only if
 18 the public housing agency fails to take such corrective
 19 action after notice and a reasonable opportunity to do
 20 so. In administering this section, the Secretary shall, to
 21 the greatest extent possible, respect the professional
 22 judgment of the administrators of the public housing
 23 agency.

24 “(g) **ELIGIBLE COSTS.**—A public housing agency may
 25 use financial assistance received under subsection (b) only—

1 “(1) to undertake activities described in its ap-
2 proved comprehensive plan under subsection (c) or its
3 annual statement under subsection (e);

4 “(2) to correct conditions that constitute an imme-
5 diate threat to the health or safety of tenants, whether
6 or not the need for such correction is indicated in its
7 comprehensive plan or annual statement;

8 “(3) to prepare a comprehensive plan under sub-
9 section (c), including reasonable costs that may be nec-
10 essary to assist tenants in participating in the planning
11 process in a meaningful way, an annual statement
12 under subsection (e), an annual performance and eval-
13 uation report under subsection (f)(1), and an audit
14 under subsection (f)(3); and

15 “(4) to operate public housing projects consistent
16 with the requirements that apply to amounts provided
17 under section 9, except that not more than 20 percent
18 of the funds secured under this section may be used for
19 such purposes.

20 “(h) ALLOCATION OF ASSISTANCE.—

21 “(1) IN GENERAL.—Assistance shall be allocated
22 under this section in accordance with the allocation
23 system in effect under section 14 on May 21, 1985.

24 “(2) REPORT ON ALTERNATIVE ALLOCATION
25 SYSTEMS.—Not later than 6 months after the date of

1 the enactment of the Housing and Community Development Act of 1987, the Secretary shall submit to the
2 Congress a report—

4 “(A) assessing the condition of public housing
5 and the need for financial assistance for capital
6 improvements and for establishment of replacement reserves for future capital improvements and
7 maintenance;

9 “(B) setting forth proposals for alternative
10 systems of allocating financial assistance under
11 this section according to criteria for a formula or
12 other allocation method to be used by the Secretary under this section in determining—

14 “(i) for each public housing agency, the
15 amounts that are necessary to address current needs for capital improvements;

17 “(ii) for each public housing agency, the
18 amounts that are necessary to address the
19 future needs for capital improvements
20 through a replacement reserve; and

21 “(iii) the relative needs of public housing agencies of different sizes for the
22 amounts described in clauses (i) and (ii); and

24 “(C) estimating, for not less than the 200
25 largest public housing agencies, the amount that

1 will be received annually under each such alterna-
 2 tive allocation system.

3 “(i) ANNUAL REPORT.—The Secretary shall include in
 4 the annual report under section 8 of the Department of Hous-
 5 ing and Urban Development Act a description of the alloca-
 6 tion, distribution, and use of assistance under this section on
 7 a regional basis and on the basis of public housing agency
 8 size.

9 “(j) REGULATIONS.—The Secretary may issue such
 10 regulations as are necessary to carry out the provisions of
 11 this section.”.

12 (b) USE OF OPERATING ASSISTANCE.—Section 9(a)(1)
 13 of the United States Housing Act of 1937 is amended by
 14 inserting after the first sentence the following new sentence:
 15 “A public housing agency may also use any available
 16 amounts provided under this section in accordance with the
 17 purpose and requirements of section 20.”.

18 SEC. 221. PUBLIC HOUSING RESIDENT MANAGEMENT.

19 The United States Housing Act of 1937 (as amended by
 20 section 220 of this Act) is further amended by adding at the
 21 end the following new section:

22 “PUBLIC HOUSING RESIDENT MANAGEMENT

23 “SEC. 21. (a) PURPOSE.—The purpose of this section is
 24 to establish a pilot program of resident management of public
 25 housing projects, as one means of improving existing living
 26 conditions in public housing projects, by providing increased

1 flexibility for public housing projects that are managed by
2 residents by—

3 “(1) permitting tenants to volunteer labor subject
4 to existing statutory and contractual obligations of the
5 public housing agency;

6 “(2) permitting the retention, and use for certain
7 purposes, of any revenues exceeding operating and
8 projects costs; and

9 “(3) providing funding, from amounts otherwise
10 available, for technical assistance to promote formation
11 and development of resident management entities.

12 “(b) PROGRAM REQUIREMENTS.—

13 “(1) RESIDENT COUNCIL.—As a condition of en-
14 tering into a resident management program, the elect-
15 ed resident council of a public housing project shall ap-
16 prove the establishment of a resident management cor-
17 poration. The resident management corporation and
18 the resident council may be the same organization, if
19 the organization complies with the requirements appli-
20 cable to both the corporation and council. The corpora-
21 tion shall be a nonprofit corporation organized under
22 the laws of the State in which the project is located,
23 and the tenants of the project shall be the sole voting
24 members of the corporation. If there is no elected resi-
25 dent council, a majority of the households of the public

1 housing project shall approve the establishment of a
 2 resident council to determine the feasibility of estab-
 3 lishing a resident management corporation to manage
 4 the project.

5 “(2) **PUBLIC HOUSING MANAGEMENT SPECIAL-**
 6 **IST.**—The resident council of a public housing project,
 7 in cooperation with the public housing agency, shall
 8 select a qualified public housing management specialist
 9 to assist in determining the feasibility of, and to help
 10 establish, a resident management corporation and to
 11 provide training and other duties agreed to in the daily
 12 operations of the project.

13 “(3) **BONDING AND INSURANCE.**—Before assum-
 14 ing any management responsibility for a public housing
 15 project, the resident management corporation shall pro-
 16 vide fidelity bonding and insurance, or equivalent pro-
 17 tection, in accordance with regulations and require-
 18 ments of the Secretary and the public housing agency.
 19 Such bonding and insurance, or its equivalent, shall be
 20 adequate to protect the Secretary and the public hous-
 21 ing agency against loss, theft, embezzlement, or fraud-
 22 ulent acts on the part of the resident management cor-
 23 poration or its employees.

24 “(4) **MANAGEMENT RESPONSIBILITIES.**—A resi-
 25 dent management corporation that qualifies under this

1 section, and that supplies insurance and bonding or
2 equivalent protection sufficient to the Secretary and
3 the public housing agency, shall enter into a contract
4 with the public housing agency establishing the respec-
5 tive management rights and responsibilities of the cor-
6 poration and the public housing agency. Such contract
7 shall be consistent with the requirements of this Act
8 applicable to public housing projects and may include
9 specific terms governing management personnel and
10 compensation, access to public housing project records,
11 submission of and adherence to budgets, rent collection
12 procedures, tenant selection and screening, tenant
13 income verification, tenant eligibility determinations,
14 tenant eviction, the acquisition of supplies and materi-
15 als, and such other matters as may be appropriate. The
16 contract shall be treated as a 'contracting out' of serv-
17 ices and shall be subject to any provision of a collective
18 bargaining agreement regarding 'contracting out' to
19 which the public housing agency is subject.

20 "(5) ANNUAL AUDIT.—The books and records of
21 a resident management corporation operating a public
22 housing project shall be audited annually by a certified
23 public accountant. A written report of each audit shall
24 be forwarded to the public housing agency and the
25 Secretary.

1 “(c) **COMPREHENSIVE IMPROVEMENT ASSISTANCE.**—
2 Public housing projects managed by resident management
3 corporations may be provided with comprehensive improve-
4 ment assistance under section 14 or 20 for purposes of ren-
5 ovating such projects in accordance with such section. If such
6 renovation activities (including the planning and architectural
7 design of the rehabilitation) are administered by a resident
8 management corporation, the public housing agency involved
9 may not retain, for any administrative or other reason, any
10 portion of the assistance provided pursuant to this subsection.

11 “(d) **WAIVER OF FEDERAL REQUIREMENTS.**—

12 “(1) **WAIVER OF REGULATORY REQUIRE-**
13 **MENTS.**—Upon the request of any resident manage-
14 ment corporation and public housing agency, and after
15 notice and an opportunity to comment is afforded to
16 the affected tenants, the Secretary may waive (for both
17 the resident management corporation and the public
18 housing agency) any requirement established by the
19 Secretary (and not specified in any statute) that the
20 Secretary determines to unnecessarily increase the
21 costs or restrict the income of a public housing project.

22 “(2) **WAIVER TO PERMIT EMPLOYMENT.**—Upon
23 the request of any resident management corporation,
24 the Secretary may, subject to applicable collective bar-

1 gaining agreements, permit residents of such project to
2 volunteer a portion of their labor.

3 “(3) REPORT ON ADDITIONAL WAIVERS.—Not
4 later than 6 months after the date of the enactment of
5 the Housing and Community Development Act of
6 1987, the Secretary shall submit to the Congress a
7 report setting forth any additional waivers of Federal
8 law that the Secretary determines are necessary or ap-
9 propriate to carry out the provisions of this section. In
10 preparing the report, the Secretary shall consult with
11 resident management corporations and public housing
12 agencies.

13 “(4) EXCEPTIONS.—The Secretary may not
14 waive under this subsection any requirement with re-
15 spect to income eligibility for purposes of section 16,
16 rental payments under section 3(a), tenant or applicant
17 protections, employee organizing rights, or rights of
18 employees under collective bargaining agreements.

19 “(e) OPERATING SUBSIDY AND PROJECT INCOME.—

20 “(1) CALCULATION OF OPERATING SUBSIDY.—
21 Notwithstanding any provision of section 9 or any reg-
22 ulation under such section, and subject to the exception
23 provided in paragraph (3), the portion of the operating
24 subsidy received by a public housing agency under sec-
25 tion 9 that is allocated to a public housing project

1 managed by a resident management corporation shall
2 not be less than the public housing agency per unit
3 monthly amount provided in the previous year as de-
4 termined on an individual project basis.

5 “(2) **CONTRACT REQUIREMENTS.**—Any contract
6 for management of a public housing project entered
7 into by a public housing agency and a resident man-
8 agement corporation shall specify the amount of
9 income expected to be derived from the project itself
10 (from sources such as rents and charges) and the
11 amount of funds to be provided to the project from the
12 other sources of income of the public housing agency
13 (such as operating subsidy under section 9, interest
14 income, administrative fees, and rents).

15 “(3) **CALCULATION OF TOTAL INCOME.**—

16 “(A) Subject to subparagraph (B), the
17 amount of funds provided by a public housing
18 agency to a public housing project managed by a
19 resident management corporation may not be re-
20 duced during the 3-year period beginning on the
21 date of the enactment of the Housing and Com-
22 munity Development Act of 1987, or on the date
23 of the initial management contract for the project,
24 whichever is later.

1 “(B) If the total income of a public housing
2 agency (including the operating subsidy provided
3 to the public housing agency under section 9) is
4 reduced or increased, the income provided by the
5 public housing agency to a public housing project
6 managed by a resident management corporation
7 shall be reduced or increased in proportion to the
8 reduction or increase in the total income of the
9 public housing agency, except that any reduction
10 in operating subsidy that occurs as a result of
11 fraud, waste, or mismanagement by the public
12 housing agency shall not affect the funds provided
13 to the resident management corporation.

14 “(4) RETENTION OF EXCESS REVENUES.—

15 “(A) Any income generated by a resident
16 management corporation of a public housing
17 project (other than investment income or rental
18 income) shall be excluded in subsequent years in
19 calculating (i) the operating subsidies provided to
20 the public housing agency under section 9; and (ii)
21 the funds provided by the public housing agency
22 to the resident management corporation.

23 “(B) Any revenues retained by a public hous-
24 ing agency or resident management corporation
25 under subparagraph (A) shall be used for purposes

1 of improving the maintenance and operation of the
 2 public housing project, for establishing business
 3 enterprises that employ residents of public hous-
 4 ing, or for acquiring additional dwelling units for
 5 lower income families.

6 “(f) RESIDENT MANAGEMENT TECHNICAL ASSIST-
 7 ANCE AND TRAINING.—

8 “(1) FINANCIAL ASSISTANCE.—To the extent
 9 budget authority is available for section 14 or 20, the
 10 Secretary shall provide financial assistance to up to 15
 11 resident management corporations or resident councils
 12 that obtain, by contract or otherwise, technical assist-
 13 ance for the development of resident management enti-
 14 ties, including the formation of such entities, the devel-
 15 opment of the management capability of newly formed
 16 or existing entities, the identification of the social sup-
 17 port needs of residents of public housing projects, and
 18 the securing of such support.

19 “(2) LIMITATION ON ASSISTANCE.—The finan-
 20 cial assistance provided under this subsection with re-
 21 spect to any public housing project may not exceed
 22 \$100,000.

23 “(3) FUNDING.—Of the amounts available for fi-
 24 nancial assistance under section 14 or 20 for fiscal

1 year 1988, the Secretary may use not more than
2 \$1,500,000 to carry out this subsection.

3 “(g) ANNUAL REPORT.—The Secretary shall submit
4 annually to the Congress a report on the activities carried out
5 under this section. The report shall include—

6 “(1) an evaluation of the effect of resident man-
7 agement on rent collections, maintenance, tenant em-
8 ployment, and operating costs;

9 “(2) a summary of any waiver of regulatory re-
10 quirements provided under subsection (d); and

11 “(3) any recommendations of the Secretary for
12 waiver of regulatory requirements with respect to all
13 public housing agencies.”.

14 **SEC. 222. PUBLIC HOUSING HOMEOWNERSHIP AND MANAGE-**
15 **MENT OPPORTUNITIES.**

16 The United States Housing Act of 1937 (as amended by
17 section 221 of this Act) is further amended by adding at the
18 end the following new section:

19 **“PUBLIC HOUSING HOMEOWNERSHIP AND MANAGEMENT**
20 **OPPORTUNITIES**

21 **“SEC. 22. (a) HOMEOWNERSHIP OPPORTUNITIES IN**
22 **GENERAL.—**Lower income families residing in a public hous-
23 ing project may be provided with the opportunity to purchase
24 the dwelling units in the project through a qualifying resident
25 management corporation, subject to the provisions of the
26 annual contributions contract, as follows:

1 “(1) **FORMATION OF RESIDENT MANAGEMENT**
2 **CORPORATION.—**As a condition for public housing
3 homeownership—

4 “(A) the adult residents of a public housing
5 project shall have formed a resident management
6 corporation in accordance with regulations and re-
7 quirements of the Secretary prescribed under this
8 section and section 21;

9 “(B) the resident management corporation
10 shall have entered into a contract with the public
11 housing agency establishing the respective man-
12 agement rights and responsibilities of the resident
13 management corporation and the public housing
14 agency; and

15 “(C) the resident management corporation
16 shall have demonstrated its ability to manage
17 public housing effectively and efficiently for a
18 period of not less than 3 years.

19 “(2) **HOMEOWNERSHIP ASSISTANCE.—**

20 “(A) The Secretary may provide comprehen-
21 sive improvement assistance under section 14 or
22 20 to a public housing project in which homeown-
23 ership activities under this section are conducted.

24 “(B) The Secretary, and the public housing
25 agency owning and operating a public housing

1 project, shall provide such training, technical as-
 2 sistance, and educational assistance as the Secre-
 3 tary determines to be necessary to prepare the
 4 families residing in the project, and any resident
 5 management corporation established under para-
 6 graph (1), the homeownership.

7 “(3) CONDITIONS OF PURCHASE BY A RESIDENT
 8 MANAGEMENT CORPORATION.—

9 “(A) A resident management corporation
 10 may purchase from a public housing agency one
 11 or more buildings in a public housing project fol-
 12 lowing a determination by the Secretary that—

13 “(i) the resident management corpora-
 14 tion has met the conditions of paragraph (1);

15 “(ii) the resident management corpora-
 16 tion has applied for and is prepared to under-
 17 take the ownership, management, and main-
 18 tenance of the building or buildings with con-
 19 tinued assistance from the Secretary;

20 “(iii) the public housing agency has held
 21 one or more public hearings to obtain the
 22 views of citizens regarding the proposed pur-
 23 chase and, in consultation with the Secre-
 24 tary, has certified that the purchase will not
 25 interfere with the rights of other families re-

1 siding in public housing, will not harm the
2 efficient operation of other public housing,
3 and is in the interest of the community;

4 “(iv) the building or buildings meet the
5 minimum safety and livability standards ap-
6 plicable under section 14 or 20, and the
7 physical condition, management, and oper-
8 ation of the building or buildings are suffi-
9 cient to permit and encourage affordable
10 homeownership by the families residing in
11 the project.

12 “(B) The price of a building purchased under
13 the preceding sentence shall be approved by the
14 Secretary, in consultation with the public housing
15 agency and resident management corporation,
16 taking into account the fair market value of the
17 property, the ability of resident families to afford
18 and maintain the property, and such other factors
19 as the Secretary determines to be consistent with
20 increasing the supply of dwelling units affordable
21 to very low income families.

22 “(4) CONDITIONS OF RESALE.—

23 “(A) A resident management corporation
24 may sell a dwelling unit or ownership rights in a
25 dwelling unit only to a lower income family resid-

1 ing in public housing and if the purchase will not
2 interfere with the rights of other families residing
3 in the housing project or harm the efficient oper-
4 ation of the project, and the family will be able to
5 purchase and maintain the property.

6 “(B) A purchase under the previous sentence
7 may be made under any of the following arrange-
8 ments:

9 “(i) Limited dividend cooperative
10 ownership.

11 “(ii) Condominium ownership.

12 “(iii) Fee simple ownership.

13 “(iv) Shared appreciation with a public
14 housing agency providing financing under
15 paragraph (6).

16 “(v) Any other arrangement determined
17 by the Secretary to be appropriate.

18 “(C) Property purchased under this section
19 shall be resold only to the resident management
20 corporation or to a lower income family residing
21 in or eligible to reside in lower income housing or
22 to the public housing authority.

23 “(D) In no case may the owner receive con-
24 sideration for his or her interest in the property
25 that exceeds the total of—

1 “(i) the contribution to equity paid by
2 the owner;

3 “(ii) the value, as determined by such
4 means as the Secretary shall determine
5 through regulation, of any improvements in-
6 stalled at the expense of the owner during
7 the owner’s tenure as owner; and

8 “(iii) the appreciated value determined
9 by an inflation allowance at a rate which
10 may be based on a cost of living index, an
11 income index, or market index as determined
12 by the Secretary through regulation and
13 agreed to by the purchaser and the resident
14 management corporation or the public hous-
15 ing agency, whichever is appropriate, at the
16 time of initial sale, and applied against the
17 contribution to equity. The resident manage-
18 ment corporation or the public housing
19 agency may, at the time of initial sale, enter
20 into an agreement with the owner to set a
21 maximum amount which this appreciation
22 may not exceed.

23 “(E) Upon sale, the resident management
24 corporation or the public housing agency, which-
25 ever is appropriate, shall ensure that subsequent

1 owners are bound by the same limitations on
2 resale and further restrictions on equity
3 appreciation.

4 “(5) USE OF PROCEEDS.—Proceeds from the sale
5 of a building or buildings under paragraph (3) and
6 amounts recaptured under paragraph (4) shall be paid
7 to the public housing agency and shall be retained and
8 used by the public housing agency only to rehabilitate
9 or increase the number of public housing units avail-
10 able for occupancy. The resident management corpora-
11 tion shall keep and make available to the public hous-
12 ing agency and the Secretary all records necessary to
13 calculate accurately payments due the local housing
14 agency under this section. The Secretary shall not
15 reduce or delay payments under other provisions of law
16 as a result of amounts made available to the local
17 housing agency under this section.

18 “(6) FINANCING.—Where financing for the pur-
19 chase of the property is not otherwise available for
20 purposes of assisting any purchase by a family or resi-
21 dent management corporation under this section, the
22 public housing agency involved may make a loan on
23 the security of the property involved to the family or
24 resident management corporation.

1 “(7) ANNUAL CONTRIBUTIONS.—Notwithstanding
2 the purchase of a building in a public housing project
3 under this section, the Secretary shall continue to pay
4 annual contributions with respect to the project. Such
5 contributions may not exceed the maximum contribu-
6 tions authorized in section 5(a).

7 “(8) OPERATING SUBSIDIES.—Operating subsi-
8 dies shall not be available with respect to a building
9 after the date of its sale by the public housing agency.

10 “(b) PROTECTION OF NONPURCHASING FAMILIES.—

11 “(1) EVICTION PROHIBITION.—No family residing
12 in a dwelling unit in a public housing project may be
13 evicted by reason of the sale of the project to a resi-
14 dent management corporation under this section.

15 “(2) TENANTS RIGHTS.—Families renting a
16 dwelling unit in a building purchased by a resident
17 management corporation shall have all rights provided
18 to tenants of public housing under this Act.

19 “(3) RENTAL ASSISTANCE.—If any family resides
20 in a dwelling unit in a building purchased by a resident
21 management corporation, and the family decides not to
22 purchase the dwelling unit, the Secretary may offer to
23 provide to the family a certificate under section 8(b)(1)
24 as determined by the Secretary to be appropriate to
25 permit the family to continue to reside in the dwelling

1 unit. The Secretary may adjust the fair market rent for
 2 such certificate to take into account conditions under
 3 which the building was purchased.

4 “(4) **RENTAL AND RELOCATION ASSISTANCE.**—If
 5 any family resides in a dwelling unit in a public hous-
 6 ing project in which other dwelling units are purchased
 7 under this section, and the family decides not to pur-
 8 chase the dwelling unit, the Secretary shall offer (to be
 9 selected by the family, at its option)—

10 “(A) to assist the family in relocating to a
 11 dwelling unit comparable, appropriate sized in an-
 12 other public housing project;

13 “(B) to provide to the family the financial as-
 14 sistance necessary to permit the family to stay in
 15 the project or to move to another comparable
 16 dwelling unit and to pay no more for rent than
 17 required under section 3(a); and

18 “(C) any nonpurchasing family that decides
 19 to move shall be reimbursed for their cost of
 20 relocation.

21 “(d) **FINANCIAL ASSISTANCE FOR PUBLIC HOUSING**
 22 **AGENCIES.**—The Secretary shall provide to public housing
 23 agencies such financial assistance as is necessary to permit
 24 such agencies to carry out the provisions of this section.

1 “(e) **ADDITIONAL HOMEOWNERSHIP AND MANAGE-**
 2 **MENT OPPORTUNITIES.**—This section shall not apply to the
 3 turnkey III, the mutual help, or any other homeownership
 4 program established under section 5(h) or section 6(c)(4)(D)
 5 and in existence before the date of the enactment of the
 6 Housing and Community Development Act of 1987.

7 “(f) **REGULATIONS.**—The Secretary shall issue such
 8 regulations as may be necessary to carry out the provisions of
 9 this section. Such regulations may establish any additional
 10 terms and conditions for homeownership or resident manage-
 11 ment under this section that are determined by the Secretary
 12 to be appropriate.

13 “(g) **ANNUAL REPORT.**—The Secretary shall annually
 14 submit to the Congress a report setting forth—

15 “(1) the number, type, and cost of units sold;

16 “(2) the income, race, gender, children, and other
 17 characteristics of families purchasing or moving and
 18 not purchasing;

19 “(3) the amount and type of financial assistance
 20 provided;

21 “(4) the need for subsidy to ensure continued af-
 22 fordability and meet future maintenance and repair
 23 costs; and

24 “(5) the recommendations for statutory and regu-
 25 latory improvements to the program.

1 “(h) **LIMITATION.**—Any authority of the Secretary
 2 under this section to provide financial assistance, or to enter
 3 into contracts to provide financial assistance, shall be effec-
 4 tive only to such extent or in such amounts as are or have
 5 been provided in advance in appropriation Act.”.

6 **PART 3—SECTION 8 ASSISTANCE AND OTHER**
 7 **PROGRAMS**

8 **SEC. 231. SECTION 8 CONTRACTS FOR EXISTING DWELLING**
 9 **UNITS.**

10 (a) **TERM OF ANNUAL CONTRIBUTIONS CONTRACT.**—
 11 Section 8(b)(1) of the United States Housing Act of 1937 is
 12 amended by inserting after the first sentence the following
 13 new sentence: “The Secretary shall enter into a separate
 14 annual contributions contract with each public housing
 15 agency to obligate the authority approved each year, begin-
 16 ning with the authority approved in appropriations Acts for
 17 fiscal year 1986 (other than amendment authority to increase
 18 assistance payments being made using authority approved
 19 prior to the appropriations Acts for fiscal year 1986), and
 20 such annual contributions contract shall bind the Secretary to
 21 make such authority, and any amendments increasing such
 22 authority, available to the public housing agency for an ag-
 23 gregate period of 180 months.”.

1 (b) **ADDITIONAL REQUIREMENTS.**—Section 8(b) of the
 2 United States Housing Act of 1937 is amended by adding at
 3 the end the following new paragraphs:

4 “(2) Each annual contributions contract entered into
 5 under this subsection and subsection (c) shall provide for a
 6 specific number of certificates or vouchers and full funding of
 7 such number. The Secretary shall provide amendments of
 8 such annual contributions contract to ensure full funding of
 9 such number, and may not require as a prerequisite of such
 10 amendments that the public housing agency shall have en-
 11 tered into a contract with a building owner.

12 “(3)(A) Not less than 6 months prior to terminating any
 13 contract under which assistance payments are received under
 14 this subsection, an owner of existing dwelling units shall
 15 notify the Secretary of the planned termination, specify the
 16 reason for the termination, and describe the probable impact
 17 on the displacement of tenants.

18 “(B) Following notification under subparagraph (A), the
 19 Secretary shall take such actions as are within the authority
 20 of the Secretary to encourage the owner involved to remain
 21 in the program of assistance under this subsection.”.

22 **SEC. 232. PUBLIC HOUSING AGENCY FEES FOR SECTION 8**
 23 **PROGRAM.**

24 (a) **IN GENERAL.**—Section 8(b) of the United States
 25 Housing Act of 1937 (as amended by section 231 of this Act)

1 is further amended by adding at the end the following new
2 paragraph:

3 “(5) The method of calculation, the preliminary fee, and
4 the percentage established for administrative fees paid to a
5 public housing agency administering a contract under this
6 subsection shall be the method of calculation, the preliminary
7 fee, and the percentage established by the Secretary before
8 January 1, 1985, and in effect on such date.”.

9 (b) **APPLICABILITY.**—The amendment made by this
10 subsection shall be applicable to administrative fees payable
11 with respect to the administrative activities of a public hous-
12 ing agency after the date of the enactment of this Act.

13 **SEC. 233. SECTION 8 FAIR MARKET RENTALS.**

14 Section 8(c)(1) of the United States Housing Act of
15 1937 is amended by inserting before the last sentence the
16 following new sentence: “Each fair market rental in effect
17 under this subsection shall be adjusted to be effective on Oc-
18 tober 1 of each year to reflect changes, based on the most
19 recent available data trended so the rentals will be current
20 for the year to which they apply, of rents for existing or
21 newly constructed rental dwelling units, as the case may be,
22 of various sizes and types in the market area suitable for
23 occupancy by persons assisted under this section.”.

1 SEC. 234. VOUCHER DEMONSTRATION PROGRAM.

2 (a) USE OF VOUCHERS IN CONNECTION WITH
3 RENTAL REHABILITATION.—The first sentence of section
4 8(o)(3) of the United States Housing Act of 1937 is
5 amended—

6 (1) by striking “or” before “(C)”; and

7 (2) by inserting before the period at the end the
8 following: “, or (D) a family residing in a project being
9 rehabilitated under section 17 that is determined to be
10 a lower income family at the time it initially receives
11 assistance and whose rent after rehabilitation would
12 exceed 30 percent of the monthly adjusted income of
13 the family”.

14 (b) ADJUSTMENTS OF ASSISTANCE PAYMENTS.—The
15 first sentence of section 8(o)(7)(A) is amended to read as fol-
16 lows: “The public housing agency shall adjust the amount of
17 the payment standard and the amount of assistance payments
18 under this subsection not less than once every 12 months to
19 ensure continued affordability.”.

20 (c) USE OF VOUCHERS IN CONNECTION WITH COOP-
21 ERATIVE AND MUTUAL HOUSING.—Section 8(o)(8) of the
22 United States Housing Act of 1937 is amended by striking
23 the following: “not to exceed 5 per centum of the amount
24 of”.

25 (d) OPERATION OF PROGRAM.—Section 8(o) of the
26 United States Housing Act of 1937 is amended—

1 (1) in the first sentence of paragraph (1), by strik-
 2 ing "In" and all that follows through ", the" and in-
 3 serting "The";

4 (2) by striking paragraph (4);

5 (3) by redesignating paragraphs (5) through (8) as
 6 paragraphs (4) through (7), respectively; and

7 (4) in paragraph (5), as so redesignated by this
 8 subsection, by striking "an initial" and inserting "a".

9 (e) **ADMINISTRATIVE EXPENSES.**—Section 8(o) of the
 10 United States Housing Act of 1937 (as amended by subsec-
 11 tion (d) of this section) is further amended by adding at the
 12 end the following new paragraph:

13 "(8) The assistance under this subsection that is re-
 14 tained by public housing agencies for administrative expenses
 15 shall be equal to the assistance under section 8(b) that is
 16 retained by such agencies for such expenses."

17 **SEC. 235. PORTABILITY OF SECTION 8 CERTIFICATES AND**
 18 **VOUCHERS.**

19 Section 8 of the United States Housing Act of 1937 is
 20 amended by adding at the end the following new subsection:

21 "(q)(1) Any family assisted under subsection (b) or (o)
 22 may continue to receive such assistance when such family
 23 moves to another eligible dwelling unit—

1 “(A) if such dwelling unit is within the same met-
2 ropolitan statistical area as the dwelling unit from
3 which the family moves; and

4 “(B) notwithstanding that such dwelling unit is
5 not within the area of jurisdiction of the public housing
6 agency having jurisdiction in the area of the dwelling
7 unit from which the family moves.

8 “(2) The public housing agency having authority with
9 respect to the dwelling unit to which a family moves under
10 this subsection shall have the responsibility of carrying out
11 the provisions of this subsection with respect to such family.
12 If no public housing agency has authority with respect to the
13 dwelling unit to which a family moves under this subsection,
14 the public housing agency having authority with respect to
15 the dwelling unit from which the family moves shall have
16 such responsibility.

17 “(3) In providing assistance under subsection (b) or (c)
18 for any fiscal year, the Secretary shall give consideration to
19 any reduction in the number of resident families incurred by a
20 public housing agency in the preceding fiscal year as a result
21 of the provisions of this subsection.

22 “(4) The provisions of this subsection may not be con-
23 strued to restrict any authority of the Secretary under any
24 other provision of law to provide for the portability of assist-
25 ance under this section.”.

1 **SEC. 236. PROHIBITION OF DENIAL OF SECTION 8 CERTIFI-**
 2 **CATES AND VOUCHERS TO RESIDENTS OF**
 3 **PUBLIC HOUSING.**

4 Section 8 of the United States Housing Act of 1937 (as
 5 amended by section 235 of this Act) is further amended by
 6 adding at the end the following new subsection:

7 “(r) In selecting families for the provision of assistance
 8 under this section (including subsection (o)), a public housing
 9 agency may not exclude or penalize a family solely because
 10 the family resides in a public housing project.”.

11 **SEC. 237. TERM OF SECTION 8 LOAN MANAGEMENT CON-**
 12 **TRACTS.**

13 Section 8 of the United States Housing Act of 1937 (as
 14 amended by section 236 of this Act) is further amended by
 15 adding at the end the following new subsection:

16 “(s) Each annual contract entered into by the Secretary
 17 under this section for loan management assistance shall be
 18 for a term of 180 months.”.

19 **SEC. 238. RENTAL REHABILITATION AND DEVELOPMENT**
 20 **GRANTS.**

21 (a) **AUTHORIZATION OF APPROPRIATIONS.**—Section
 22 17(a)(3) of the United States Housing Act of 1937 is amend-
 23 ed to read as follows:

24 “(3) **AUTHORIZATION.**—There are authorized to be ap-
 25 propriated to carry out this section—

1 “(A) for rental rehabilitation, \$75,000,000 for
2 fiscal year 1988; and

3 “(B) for development grants, \$150,000,000 for
4 fiscal year 1988.”.

5 (b) **RENTAL REHABILITATION ELIGIBLE PROPER-**
6 **TY.**—Section 17(a)(1)(A) of the United States Housing Act of
7 1937 is amended by inserting after “property” the following:
8 “, or of real property that will be privately owned upon the
9 completion of rehabilitation,”.

10 (c) **RENTAL DEVELOPMENT PROGRAM REQUIRE-**
11 **MENTS.**—Section 17(d)(4) of the United States Housing Act
12 of 1937 is amended—

13 (1) in subparagraph (G)—

14 (A) by striking “24 months” and inserting
15 “36 months”;

16 (B) by striking the following “(36 months
17 after notice in the case of projects for which fund-
18 ing notices were issued prior to July 23, 1985)”;
19 and

20 (C) by striking “and” at the end;

21 (2) by striking the period at the end of subpara-
22 graph (H) and inserting “; and”; and

23 (3) by adding at the end the following new sub-
24 paragraph:

1 “(I) the owner of each assisted structure agrees to
2 comply with the provisions of paragraph (8) until the
3 20-year period specified in paragraph (7) has ended.”.

4 (d) **APPLICABILITY.**—The amendment made by subsec-
5 tion (c)(1) shall be applicable to all grantees, including grant-
6 ees receiving notice of project selection before the date of the
7 enactment of this Act.

8 **Subtitle B—Multifamily Housing** 9 **Management and Preservation**

10 **SEC. 241. PREPAYMENT OF MORTGAGES.**

11 (a) **DETERMINATION OF HOUSING NEED.**—Section
12 250(a)(1) of the National Housing Act is amended by striking
13 “or” and all that follows through “needs” the last place it
14 appears.

15 (b) **RIGHT OF FIRST REFUSAL.**—Section 250 of the
16 National Housing Act is amended—

17 (1) by redesignating subsection (d) as subsection
18 (e); and

19 (2) by adding after subsection (c) the following
20 new subsection:

21 “(d) Any owner of a multifamily rental housing project
22 referred to in subsection (b) who plans to prepay the mort-
23 gage covering the assisted project shall—

24 “(1) notify the Secretary of such plan; and

1 “(2) provide a right of first refusal on the sale of
 2 the project at fair market value to a State or local gov-
 3 ernmental entity, or nonprofit organization, that agrees
 4 to restrict the occupancy of the project for the remain-
 5 ing life of the project to families with incomes that do
 6 not exceed 80 percent of the area median income.”.

7 **SEC. 242. MANAGEMENT AND PRESERVATION OF HUD-OWNED**
 8 **MULTIFAMILY HOUSING PROJECTS.**

9 (a) **GOALS.**—Section 203(a) of the Housing and Com-
 10 munity Development Amendments of 1978 is amended by
 11 striking “(a)” and all that follows through the semicolon at
 12 the end of paragraph (1) and inserting the following:

13 “(a) The Secretary of Housing and Urban Development
 14 (in this section referred to as the ‘Secretary’) shall manage
 15 and dispose of multifamily housing projects that are owned by
 16 the Secretary, or whose mortgages are held by (or assigned
 17 to) the Secretary and are delinquent, become subject to a
 18 workout agreement (excluding projects assigned under sec-
 19 tion 221(g) of the National Housing Act), or are being fore-
 20 closed upon by the Secretary, in a manner that is consistent
 21 with the National Housing Act and this section and that will,
 22 in the least costly fashion among the reasonable alternatives
 23 available, further the goals of—

24 “(1) preserving so that they are available to and
 25 affordable by low- and moderate-income persons—

1 “(A) all units in multifamily housing projects
2 that are formerly subsidized projects;

3 “(B) in multifamily housing projects owned
4 by the Secretary, at least the units that are occu-
5 pied by low- and moderate-income persons or
6 vacant; and

7 “(C) in all other multifamily housing
8 projects, at least the units that are, on the date of
9 assignment, occupied by low- and moderate-
10 income persons;”.

11 (b) **MANAGEMENT SERVICES.**—Section 203(b)(2) of the
12 Housing and Community Development Amendments of 1978
13 is amended—

14 (1) by inserting “(A)” after the paragraph designa-
15 tion;

16 (2) by redesignating clauses (A) through (D) as
17 clauses (i) through (iv), respectively;

18 (3) by striking “, owned by the Secretary” and in-
19 serting the following: “subject to subsection (a) that is
20 owned by the Secretary (or for which the Secretary is
21 mortgagee in possession)”;

22 (4) by striking the period at the end and inserting
23 “; and”; and

24 (5) by adding at the end the following new sub-
25 paragraph:

1 “(B) to require the owner of a multifamily housing
2 project subject to subsection (a) that is not owned by
3 the Secretary (and for which the Secretary is not mort-
4 gagee in possession), to contract for management serv-
5 ices for the project in the manner described in subpar-
6 graph (A).”.

7 (c) **MAINTAINING OF PROJECTS.**—Section 203(c) of the
8 Housing and Community Development Amendments of 1978
9 is amended to read as follows:

10 “(c)(1) In the case of multifamily housing projects sub-
11 ject to subsection (a) that are owned by the Secretary (or for
12 which the Secretary is mortgagee in possession), the Secre-
13 tary shall—

14 “(A) to the greatest extent possible, maintain all
15 such occupied projects in a decent, safe, and sanitary
16 condition;

17 “(B) to the greatest extent possible, maintain full
18 occupancy in all such projects; and

19 “(C) maintain all such projects for purposes of
20 providing rental or cooperative housing for the longest
21 feasible period.

22 “(2) In the case of any multifamily housing project sub-
23 ject to subsection (a) that is not owned by the Secretary (and
24 for which the Secretary is not mortgagee in possession), the

1 Secretary shall require the owner of the project to carry out
2 the requirements of paragraph (1).”.

3 (d) FINANCIAL ASSISTANCE.—Section 203 of the
4 Housing and Community Development Amendments of 1978
5 is amended—

6 (1) by redesignating subsections (d) through (g) as
7 subsections (e) through (h), respectively; and

8 (2) by inserting after subsection (c) the following
9 new subsection:

10 “(d) In carrying out the goals specified in subsection
11 (a)(1) the Secretary shall take not less than one of the follow-
12 ing actions:

13 “(1) Enter into contracts under section 8 of the
14 United States Housing Act of 1937, to the extent
15 budget authority is available for such section 8, with
16 owners of multifamily housing projects that are ac-
17 quired at foreclosure or after sale by the Secretary.
18 Such contracts shall provide assistance to the project
19 involved for a period of not less than 15 years. Such
20 contracts shall be sufficient to assist all units in subsi-
21 dized or formerly subsidized projects, and all units in
22 other projects that are occupied by lower income fami-
23 lies eligible for assistance under such section 8 at the
24 time of foreclosure or sale, as the case may be, and all
25 units that are vacant at such time (which units shall be

1 made available for such families as soon as possible).

2 In order to make available to families any units in sub-
3 sidized or formerly subsidized projects that are occu-
4 pied by persons not eligible for assistance under such
5 section 8, but that subsequently become vacant, the
6 contract shall also provide that when any such vacancy
7 occurs the owner involved shall lease the available unit
8 to a family eligible for assistance under such section 8.

9 The Secretary shall provide such contracts at contract
10 rents that, consistent with subsection (a), provide for
11 the rehabilitation of such project and do not exceed the
12 most recently adjusted fair market rents for substantial-
13 ly rehabilitated units published by the Secretary in the
14 Federal Register.

15 “(2) In accordance with the authority provided
16 under the National Housing Act, provide purchase-
17 money mortgages, reduce the selling price, or provide
18 other financial assistance to the owners of multifamily
19 housing projects that are acquired at foreclosure, or
20 after sale by the Secretary, on terms that will ensure
21 that, for a period of not less than 15 years (A) the
22 project will remain available to and affordable by low-
23 and moderate-income persons; and (B) such persons
24 shall pay not more than the amount payable as rent

1 under section 3(a) of the United States Housing Act of
2 1937.”.

3 (e) **DISPLACEMENT PROTECTION.**—Section 203(e)(1)
4 of the Housing and Community Development Amendments of
5 1978, as so redesignated in this section, is amended—

6 (1) by striking “owned by the Secretary” and in-
7 serting the following: “subject to subsection (a) that is
8 owned by the Secretary (or for which the Secretary is
9 mortgagee in possession)”; and

10 (2) by adding at the end the following new sen-
11 tence: “In the case of a multifamily housing project
12 subject to subsection (a) that is not owned by the Sec-
13 retary (and for which the Secretary is not mortgagee in
14 possession), the Secretary shall require the owner of
15 the project to carry out the requirements of this
16 paragraph.”.

17 (f) **LIMITATIONS ON CERTAIN PROJECT, LOAN, AND**
18 **MORTGAGE SALES.**—Section 203 of the Housing and Com-
19 munity Development Amendments of 1978 is amended—

20 (1) by redesignating subsections (g) and (h), as so
21 redesignated in this section, as subsections (h) and (i);
22 and

23 (2) by inserting before such subsection (h) the fol-
24 lowing new subsection:

1 “(g)(1) The Secretary may not approve the sale of any
2 loan or mortgage held by the Secretary on any formerly sub-
3 sidized project unless such sale is made as part of a transac-
4 tion that will ensure that such project will continue to oper-
5 ate at least until the maturity date of such loan or mortgage
6 in a manner that will provide rental housing on terms at least
7 as advantageous to existing and future tenants as the terms
8 required by the program under which the loan or mortgage
9 was made or insured prior to the assignment of the loan or
10 mortgage on such project to the Secretary.

11 “(2) The Secretary may not approve the sale of any
12 subsidized project that is subject to a delinquent mortgage
13 held by the Secretary if the sale transaction involves the pro-
14 vision of any additional subsidy funds by the Secretary or a
15 recasting of the mortgage, unless such sale is made as part of
16 a transaction that will ensure that such project will continue
17 to operate at least until the maturity date of the loan or mort-
18 gage in a manner that will provide rental housing on terms at
19 least as advantageous to existing and future tenants as the
20 terms required by the program under which the loan or mort-
21 gage was made or insured prior to the proposed sale of the
22 project.”.

23 (g) DEFINITIONS.—Section 203(h) of the Housing and
24 Community Development Amendments of 1978, as so redes-
25 ignated in this section, is amended—

1 (1) by inserting “(1)” after the subsection designa-
2 tion; and

3 (2) by adding at the end the following new
4 paragraphs:

5 “(2) For the purpose of this section, the term ‘formerly
6 subsidized project’ means a multifamily housing project re-
7 ceiving any of the following assistance immediately prior to
8 the assignment of the mortgage on such project to, or the
9 acquisition of such mortgage by, the Secretary:

10 “(A) below market interest rate mortgage insur-
11 ance under the proviso of section 221(d)(5) of the Na-
12 tional Housing Act;

13 “(B) interest reduction payments made in connec-
14 tion with mortgages insured under section 236 of the
15 National Housing Act;

16 “(C) rent supplement payments under section 101
17 of the Housing and Urban Development Act of 1965;

18 “(D) direct loans at below market interest rates,
19 made under section 202 of the Housing Act of 1959 or
20 to a multifamily housing project under section 312 of
21 the Housing Act of 1964; or

22 “(E) housing assistance payments made under
23 section 23 of the United States Housing Act of 1937
24 (as in effect before January 1, 1975) or section 8 of
25 the United States Housing Act of 1937 (other than

1 subsection (b)(1) of such section), without regard to
 2 whether such payments are made to all or a portion of
 3 the units in the project.

4 “(3) For the purpose of this section, the term ‘subsidized
 5 project’ means a multifamily housing project receiving any of
 6 the assistance described in paragraph (2).”.

7 **SEC. 243. ACQUISITION OF INSURED MULTIFAMILY HOUSING**
 8 **PROJECTS.**

9 Section 207(k) of the National Housing Act is amended
 10 by inserting after the second sentence the following new sen-
 11 tence: “In determining the amount to be bid, the Secretary
 12 shall act consistently with the goal established in section
 13 203(a)(1) of the Housing and Community Development
 14 Amendments of 1978.”.

15 **SEC. 244. TENANT PARTICIPATION IN MULTIFAMILY HOUSING**
 16 **PROJECTS.**

17 (a) **APPLICABILITY.**—Section 202(a) of the Housing
 18 and Community Development Amendments of 1978 is
 19 amended by inserting before the period at the end the follow-
 20 ing: “or section 202 of the Housing Act of 1959”.

21 (b) **NOTICE AND COMMENT.**—Section 202(b)(1) of the
 22 Housing and Community Development Amendments of 1978
 23 is amended—

24 (1) by striking “or” the third place it appears;

1 (2) by inserting after "alterations," the following:
2 "transfer of physical assets, or application for capital
3 improvements loan,"; and

4 (3) by striking "and the Secretary deems it appro-
5 prium" and inserting the following: "or where the Sec-
6 retary proposes to sell a mortgage secured by a multi-
7 family housing project".

8 (c) **NONDISCRIMINATION AGAINST SECTION 8 CERTIF-**
9 **ICATE HOLDERS.**—Section 202(b)(2) of the Housing and
10 Community Development Amendments of 1978 is amended
11 by inserting before the semicolon at the end the following: " ,
12 and such owners may not refuse to lease any vacant dwelling
13 unit in the project that rents for an amount not greater than
14 the fair market rent for a comparable unit, as determined by
15 the Secretary under section 8 of the United States Housing
16 Act of 1937, to a holder of a certificate of eligibility under
17 such section solely because of the status of such prospective
18 tenant as a holder of such certificate".

19 **SEC. 245. TROUBLED MULTIFAMILY HOUSING PROJECTS.**

20 Section 201(d)(1) of the Housing and Community De-
21 velopment Amendments of 1978 is amended by inserting
22 before the semicolon at the end the following: "and to apply
23 for sufficient assistance under this section, section 8 of the
24 United States Housing Act of 1937, or any other appropriate
25 housing assistance program to permit the owner to maintain

1 both the financial soundness and the low- and moderate-
 2 income character of the project (and for which the Secretary
 3 shall submit to the Congress a request for sufficient funds for
 4 the contract period)".

5 **SEC. 246. FLEXIBLE SUBSIDY ASSISTANCE FOR CERTAIN**
 6 **HOUSING PROJECTS FOR ELDERLY OR HANDI-**
 7 **CAPPED FAMILIES.**

8 (a) **PURPOSES.**—Section 201(a) of the Housing and
 9 Community Development Amendments of 1978 is amended
 10 by inserting "the Housing Act of 1959," after "1937,".

11 (b) **ELIGIBILITY FOR ASSISTANCE.**—Section
 12 201(c)(1)(A) of the Housing and Community Development
 13 Amendments of 1978 is amended by inserting before the
 14 semicolon at the end the following: " , or received a loan
 15 under section 202 of the Housing Act of 1959 before Octo-
 16 ber 1, 1970".

17 **Subtitle C—Multifamily Housing**
 18 **Preservation Loans**

19 **SEC. 261. PURPOSE.**

20 The purpose of this subtitle is to provide loans to the
 21 owners of certain multifamily housing projects assisted by the
 22 Secretary of Housing and Urban Development to permit such
 23 owners to make capital improvements required to maintain
 24 such projects as decent, safe, and sanitary housing and to

1 maintain the low- and moderate-income character of such
2 projects.

3 **SEC. 262. DEFINITIONS.**

4 For purposes of this subtitle:

5 (1) The term "capital improvement" means any
6 major repair or replacement of a capital item in a mul-
7 tifamily housing project, including any such repair or
8 replacement required as a result of deferred or inad-
9 equate maintenance. Such term does not include main-
10 tenance of any such item.

11 (2) The term "Fund" means the Multifamily
12 Housing Preservation Fund established in section 266.

13 (3) The term "lower income families" has the
14 meaning given such term in section 3(b)(2) of the
15 United States Housing Act of 1937.

16 (4) The term "low- and moderate-income charac-
17 ter" means the character of a multifamily housing
18 project with respect to tenant admission and rental
19 charges that have been agreed to by the owner of such
20 project and the Secretary in connection with assistance
21 or insurance provided by the Secretary.

22 (5) The term "Secretary" means the Secretary of
23 Housing and Urban Development.

1 **SEC. 263. AUTHORITY TO PROVIDE LOANS.**

2 (a) **IN GENERAL.**—The Secretary may provide and, to
3 the extent approved in appropriation Acts, contract to pro-
4 vide loans to owners of rental or cooperative housing projects
5 meeting the requirements of this subtitle for purposes of as-
6 sisting such owners to make capital improvements required to
7 maintain such projects as decent, safe, and sanitary housing
8 and to maintain the low- and moderate-income character of
9 such projects.

10 (b) **APPLICATIONS.**—Applications for loans under this
11 subtitle shall be made in such form, and in accordance with
12 such procedures, as the Secretary may prescribe.

13 **SEC. 264. ELIGIBILITY FOR LOANS.**

14 (a) **PROJECT REQUIREMENTS.**—The owner of any
15 rental or cooperative housing project shall be eligible for a
16 loan under this subtitle only if such project—

17 (1)(A) is assisted under section 236 of the Nation-
18 al Housing Act, the proviso of section 221(d)(5) of the
19 National Housing Act, or section 101 of the Housing
20 and Urban Development Act of 1965, without regard
21 to whether such project is insured under the National
22 Housing Act;

23 (B) is assisted under section 8 of the United
24 States Housing Act of 1937 following conversion to
25 such assistance from assistance under section 236(f)(2)

1 of the National Housing Act or section 101 of the
2 Housing and Urban Development Act of 1965;

3 (C) is assisted under section 23 of the United
4 States Housing Act of 1937, as in effect before Janu-
5 ary 1, 1975; or

6 (D) was a project described in subparagraph (A)
7 before the acquisition of such project by the Secretary,
8 and has been sold by the Secretary subject to an
9 agreement that provides that the low- and moderate-
10 income character of such project will be maintained;
11 and

12 (2) meets such other requirements consistent with
13 the purposes of this subtitle as the Secretary may pre-
14 scribe.

15 (b) LOAN AND BORROWER REQUIREMENTS.—No loan
16 may be provided under this subtitle to the owner of any
17 rental or cooperative housing project unless the Secretary
18 determines that—

19 (1) such loan, when considered with other re-
20 sources available to and financially feasible for such
21 project, is necessary for such owner to make capital
22 improvements with respect to capital items that have
23 failed, or are likely to seriously deteriorate or fail in
24 the near future, in such project;

1 (2) the owner of such project agrees to contribute
2 assistance to such project in such amounts, from such
3 sources, and in such manner as the Secretary deter-
4 mines to be appropriate, except that—

5 (A) such contribution shall not be less than
6 20 percent of the total estimated cost of the cap-
7 ital improvements involved, unless the Secretary,
8 upon application of the owner, determines that
9 such contribution is financially infeasible and
10 waives or reduces such contribution to the extent
11 necessary;

12 (B) the Secretary may not require an amount
13 to be contributed, from the reserve funds estab-
14 lished by the owner of such project for the pur-
15 pose of making capital improvements, in excess of
16 50 percent of the amount of such reserve funds on
17 the date of such loan; and

18 (C) the Secretary shall waive the require-
19 ments of this paragraph if such owner is a private
20 nonprofit corporation or association;

21 (3) the owner of such project agrees to maintain
22 the low- and moderate-income character of such
23 project for a period of not less than the remaining term
24 of the project mortgage;

1 (4) the management of such project is conducted
2 by persons who meet levels of competency and experi-
3 ence prescribed by the Secretary and are approved by
4 the Secretary;

5 (5) such project is structurally sound, or will be
6 made structurally sound as a result of the capital im-
7 provements involved, as determined on the basis of in-
8 formation obtained as a result of an onsite inspection of
9 such project;

10 (6) such loan, when considered with other re-
11 sources available to and financially feasible for such
12 project, will maintain the financial soundness of such
13 project;

14 (7) such project is operated and managed in ac-
15 cordance with a management improvement and operat-
16 ing plan that has been determined to be necessary and
17 approved by the Secretary and that includes the
18 following:

19 (A) a detailed maintenance schedule;

20 (B) a schedule for correcting past deficiencies
21 in maintenance, repairs, and replacements;

22 (C) a plan to upgrade the capital items being
23 improved, and any other capital items determined
24 by the Secretary to be associated with such cap-
25 ital items being improved and to require upgrad-

1 ing, to meet cost-effective energy efficiency stand-
2 ards prescribed by the Secretary;

3 (D) a plan to improve or maintain financial
4 and management control systems;

5 (E) a detailed annual operating budget taking
6 into account such standards for operating costs in
7 the area as may be determined by the Secretary
8 to be appropriate; and

9 (F) such other items as the Secretary may
10 determine to be appropriate;

11 (8) the reserve funds established by the owner of
12 such project for the purpose of making capital improve-
13 ments are insufficient to finance both the capital im-
14 provements for which such loan is requested and other
15 capital improvements that are reasonably expected to
16 be required in the near future, and such insufficiency is
17 not the result of the failure of such owner to comply
18 with any standard established by the Secretary for
19 management of such reserve funds; and

20 (9) such loan will be less costly to the Federal
21 Government than other reasonable alternatives avail-
22 able to the Secretary for maintaining the low- and
23 moderate-income character of such project.

1 (c) PRIORITIES IN PROVIDING LOANS.—In providing,
 2 and contracting to provide, loans under this subtitle, the Sec-
 3 retary shall give priority to—

4 (1) the extent to which the capital improvements
 5 for which such loans are requested are immediately
 6 required;

7 (2) the extent to which the projects for which
 8 such loans are requested serve as the residences of
 9 lower income families, and the extent to which other
 10 suitable housing is unavailable for such families in the
 11 areas in which such projects are located;

12 (3) the extent to which the capital improvements
 13 for which such loans are requested involve the life,
 14 safety, or health of the residents of the projects or in-
 15 volve major capital improvements in the projects; and

16 (4) projects that demonstrate the greatest financial
 17 distress, while continuing to meet the requirements of
 18 subsection (b)(6).

19 SEC. 265. AMOUNT AND CONDITIONS OF LOANS.

20 (a) PRINCIPAL AMOUNT OF LOANS.—Subject to section
 21 264(b)(2), the principal amount of any loan provided under
 22 this subtitle to the owner of any project shall not exceed 80
 23 percent of the sum of—

24 (1) the amount determined by the Secretary to be
 25 necessary for such owner to make capital improve-

1 ments with respect to capital items that have failed, or
2 are likely to seriously deteriorate or fail in the near
3 future, in such project;

4 (2) the amount determined by the Secretary to be
5 necessary to carry out a plan to upgrade the capital
6 items being improved, and any other capital items de-
7 termined by the Secretary to be associated with such
8 capital items being improved and to require upgrading,
9 to meet cost-effective energy efficiency standards pre-
10 scribed by the Secretary; and

11 (3) the amount determined by the Secretary to be
12 necessary to comply with the requirements of section
13 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794).

14 (b) CONDITIONS OF LOANS.—

15 (1) The term of any loan provided under this sub-
16 title shall not exceed the remaining term of the mort-
17 gage on the project with respect to which such loan is
18 provided.

19 (2) Subject to subsection (c), each loan provided
20 under this subtitle shall bear interest at a rate deter-
21 mined by the Secretary to be appropriate, except that
22 such rate shall not be less than 6 percent or more than
23 the rate determined under section 221(d)(5)(B) of the
24 National Housing Act.

1 (3) Each loan provided under this subtitle shall be
2 considered to be a liability of the project involved, and
3 shall not be dischargeable in any bankruptcy proceed-
4 ing under section 727, 1141, or 1328(b) of title 11,
5 United States Code.

6 (4) The Secretary may establish such additional
7 conditions on loans provided under this subtitle as the
8 Secretary determines to be appropriate.

9 (5) The Secretary may provide more than one
10 loan to any project under this subtitle, if each such
11 loan complies with the provisions of this subtitle.

12 (c) **MINIMIZATION OF RENT INCREASES.**—In order to
13 minimize any increases in rental payments that may occur as
14 a result of the debt service and other expenses of a loan
15 provided under this subtitle, and that would be incurred by
16 residents of the project involved whose rental payments are,
17 or would as a result of such expenses be, in excess of the
18 amount allowable if section 3(a) of the United States Housing
19 Act of 1937 were applicable to such residents, the Secretary
20 may take any or all of the following actions:

21 (1) Provide assistance with respect to such project
22 under section 8(b)(1) of the United States Housing Act
23 of 1937, to the extent amounts are available for such
24 assistance and without regard to section 16 of such
25 Act.

1 (2) Reduce the rate of interest charged on such
2 loan to a rate of not less than 1 percent.

3 (3) Increase the term of such loan to a term that
4 does not exceed the remaining term of the mortgage on
5 such project.

6 (4) Increase the amount of assistance to be pro-
7 vided by the owner of such project under section
8 264(b)(2), if applicable, to an amount not to exceed 30
9 percent of the total estimated cost of the capital im-
10 provements involved.

11 **SEC. 266. MULTIFAMILY HOUSING PRESERVATION FUND.**

12 (a) **ESTABLISHMENT OF FUND.**—For purposes of car-
13 rying out the provisions of this subtitle, there hereby is estab-
14 lished in the Treasury of the United States a revolving fund,
15 to be known as the Multifamily Housing Preservation Fund.
16 The Fund shall, to the extent approved in appropriation Acts,
17 be available to the Secretary for purposes of carrying out the
18 provisions of this subtitle.

19 (b) **ASSETS OF FUND.**—The Fund shall consist of (1)
20 any amount appropriated under section 268; (2) any amount
21 repaid on a loan provided under this subtitle; and (3) any
22 other amount received by the Secretary under this subtitle.

23 (c) **MANAGEMENT OF FUND.**—Any amounts in the
24 Fund determined by the Secretary to be in excess of the
25 amounts currently required to carry out the provisions of this

1 subtitle shall be invested by the Secretary in obligations of,
 2 or obligations guaranteed as to both principal and interest by,
 3 the United States or any agency of the United States.

4 **SEC. 267. REGULATIONS.**

5 The Secretary shall, not later than the expiration of the
 6 180-day period following the date of the enactment of this
 7 Act, issue such regulations as may be necessary to carry out
 8 the provisions of this subtitle.

9 **SEC. 268. AUTHORIZATION OF APPROPRIATIONS.**

10 There is authorized to be appropriated to carry out the
 11 provisions of this subtitle \$75,000,000 for fiscal year 1988.
 12 Any amount appropriated under this section shall be deposit-
 13 ed in the Fund and shall remain available until expended.

14 **Subtitle D—Other Housing Assistance**
 15 **Programs**

16 **SEC. 281. HOUSING FOR THE ELDERLY AND HANDICAPPED.**

17 (a) **BORROWING AUTHORITY.**—The first sentence of
 18 section 202(a)(4)(B)(i) of the Housing Act of 1959 is
 19 amended—

20 (1) by striking “and” the first place it appears;
 21 and

22 (2) by inserting after “1984,” the following: “and
 23 to such sums as may be approved in appropriation Acts
 24 for fiscal year 1988,”.

1 (b) **LOAN AUTHORITY.**—Section 202(a)(4)(C) of the
 2 Housing Act of 1959 is amended by adding at the end the
 3 following new sentence: “Not more than \$620,000,000 may
 4 be approved in appropriation Acts for such loans for fiscal
 5 year 1988.”.

6 (c) **INTEREST RATE LIMITATION.**—Section 223(a) of
 7 the Housing and Urban-Rural Recovery Act of 1983 is
 8 amended by striking paragraph (2).

9 **SEC. 282. HOUSING FOR THE HANDICAPPED.**

10 (a) **FINDINGS AND PURPOSE.**—

11 (1) The Congress hereby finds that—

12 (A) housing for nonelderly handicapped fami-
 13 lies is assisted under section 202 of the Housing
 14 Act of 1959 and section 8 of the United States
 15 Housing Act of 1987;

16 (B) the housing programs under such sections
 17 are designed and implemented primarily to assist
 18 rental housing for elderly and nonelderly families
 19 and are often inappropriate for dealing with the
 20 specialized needs of the physically impaired, the
 21 developmentally disabled, and the chronically
 22 mentally ill;

23 (C) the development of housing for nonelder-
 24 ly handicapped families under such programs is
 25 often more expensive than necessary, thereby re-

1 ducing the number of such families that can be as-
2 sisted with available funds;

3 (D) the program under section 202 of the
4 Housing Act of 1959 can continue to provide
5 direct loans to finance group residences and inde-
6 pendent apartments for nonelderly handicapped
7 families, but can be made more efficient and less
8 costly by the adoption of standards and proce-
9 dures applicable only to housing for such families;

10 (E) the use of the program under section 8 of
11 the United States Housing Act of 1937 to assist
12 rentals for housing for nonelderly handicapped
13 families is time consuming and unnecessarily
14 costly and, in some areas of the Nation, prevents
15 the development of such housing;

16 (F) the use of the program under section 8 of
17 the United States Housing Act of 1937 to assist
18 rentals for housing for nonelderly handicapped
19 families should be replaced by a more appropriate
20 subsidy mechanism;

21 (G) both elderly and handicapped housing
22 projects assisted under section 202 of the Housing
23 Act of 1959 will benefit from an increased empha-
24 sis on supportive services and a greater use of
25 State and local funds; and

1 (H) an improved program for nonelderly
 2 handicapped families will assist in providing shel-
 3 ter and supportive services for mentally ill persons
 4 who might otherwise be homeless.

5 (2) The purpose of this section is to improve the
 6 direct loan program under section 202 of the Housing
 7 Act of 1959 to ensure that such program meets the
 8 special housing and related needs of nonelderly handi-
 9 capped families.

10 (b) HOUSING FOR HANDICAPPED FAMILIES.—

11 (1) Section 202(h) of the Housing Act of 1959 is
 12 amended to read as follows:

13 “(h)(1) Of the amounts made available in appropriation
 14 Acts for loans under subsection (a)(4)(C) for any fiscal year
 15 commencing after September 30, 1987, not less than 15 per-
 16 cent shall be available for loans for the development costs of
 17 housing for handicapped families. If the amount required for
 18 any such fiscal year for approvable applications for loan
 19 under this subsection is less than the amount available under
 20 this paragraph, the balance shall be made available for loans
 21 under other provisions of this section.

22 “(2) The Secretary shall take such actions as may be
 23 necessary to ensure that—

24 “(A) funds made available under this subsection
 25 will be used to support a variety of methods of meeting

1 the needs primarily of nonelderly handicapped families
 2 by providing a variety of housing options, ranging from
 3 small group homes to independent living complexes;
 4 and

5 “(B) housing for handicapped families assisted
 6 under this subsection will provide families occupying
 7 units in such housing with an assured range of services
 8 specified in subsection (f), will provide such families
 9 with opportunities for optimal independent living and
 10 participation in normal daily activities, and will facili-
 11 tate access by such families to the community at large
 12 and to suitable employment opportunities within such
 13 community.

14 “(3)(A) In allocating funds under this subsection, and in
 15 processing applications for loans under this section and as-
 16 sistance payments under paragraph (4), the Secretary shall
 17 adopt such distinct standards and procedures as the Secretary
 18 determines appropriate due to differences between housing
 19 for handicapped families and other housing assisted under
 20 this section.

21 “(B) The Secretary may, on a demonstration basis, de-
 22 termine the feasibility and desirability of reducing processing
 23 time and costs for housing for handicapped families by limit-
 24 ing project design to a small number of prototype designs.
 25 Any such demonstration shall be limited to the 3-year period

1 following the date of the enactment of the Housing and Com-
 2 munity Development Act of 1987, may only involve projects
 3 whose sponsors consent to participation in such demonstra-
 4 tion, and shall be described in a report submitted by the Sec-
 5 retary to the Congress following completion of such demon-
 6 stration.

7 “(4)(A) The Secretary shall, to the extent approved in
 8 appropriation Acts, enter into contracts with owners of hous-
 9 ing for handicapped families receiving loans under, or meet-
 10 ing the requirements of, this section to make monthly pay-
 11 ments to cover any part of the costs attributed to units occu-
 12 pied (or, as approved by the Secretary, held for occupancy)
 13 by lower income families that is not met from project income.
 14 The annual contract amount for any project shall not exceed
 15 the sum of the initial annual project rentals for all units and
 16 any initial utility and services allowances for such units, as
 17 approved by the Secretary. Any contract amounts not used
 18 by a project in any year shall remain available to the project
 19 until the expiration of the contract. The term of a contract
 20 entered into under this subparagraph shall be 240 months.
 21 The annual contract amount may be adjusted by the Secre-
 22 tary if the sum of the project income and the amount of as-
 23 sistance payments available under this subparagraph are in-
 24 adequate to provide for reasonable project costs. In the case
 25 of an intermediate care facility in which there reside families

1 assisted under title XIX of the Social Security Act, project
2 income under this subparagraph shall include the same
3 amount as if such families were being assisted under title
4 XVI of the Social Security Act.

5 “(B) The Secretary shall approve initial project rentals
6 for any project assisted under this subsection based on the
7 determination of the Secretary of the total actual necessary
8 and reasonable costs of developing and operating the project,
9 taking into consideration the need to contain costs to the
10 extent practicable and consistent with the purposes of the
11 project and this section.

12 “(C) The Secretary shall require that, during the term
13 of each contract entered into under subparagraph (A), all
14 units in a project assisted under this subsection shall be made
15 available for occupancy by lower income families, as such
16 term is defined in section 3(b)(2) of the United States Hous-
17 ing Act of 1937. The rent payment required of a lower
18 income family shall be determined in accordance with section
19 3(a) of such Act, except that the gross income of a family
20 occupying an intermediate care facility assisted under title
21 XIX of the Social Security Act shall be the same amount as
22 if the family were being assisted under title XVI of the Social
23 Security Act.

24 “(D) The Secretary shall coordinate the processing of an
25 application for a loan for housing for handicapped families

1 under this section and the processing of an application for
2 assistance payments under this paragraph for such housing.”.

3 (2) Section 202(d) of the Housing Act of 1959 is
4 amended by adding at the end the following new para-
5 graphs:

6 “(9) The term ‘housing for handicapped families’ means
7 housing and related facilities to be occupied by handicapped
8 families who are primarily nonelderly handicapped families.

9 “(10) The term ‘nonelderly handicapped families’ means
10 elderly or handicapped families, the head of which (and
11 spouse, if any) is less than 62 years of age at the time of
12 initial occupancy of a project assisted under this section.”.

13 (3) Section 202(c)(3) of the Housing Act of 1959
14 is amended by inserting after “section” the following:
15 “and designed for dwelling use by 12 or more elderly
16 or handicapped families”.

17 (c) SUPPORTIVE SERVICES FOR ELDERLY AND HANDI-
18 CAPPED FAMILIES.—Section 202(f) of the Housing Act of
19 1959 is amended—

20 (1) by inserting “(1)” after the subsection designa-
21 tion; and

22 (2) by adding at the end the following new para-
23 graph:

1 “(2) Each applicant for a loan under this section for
2 housing and related facilities shall submit with the application
3 a supportive services plan describing—

4 “(A) the category or categories of families such
5 housing and facilities are intended to serve;

6 “(B) the range of necessary services to be pro-
7 vided to the families occupying such housing;

8 “(C) the manner in which such services will be
9 provided to such families; and

10 “(D) the extent of State and local funds available
11 to assist in the provision of such services.”.

12 (d) **TERMINATION OF SECTION 8 ASSISTANCE.**—On
13 and after the first date that amounts approved in an appro-
14 priation Act for any fiscal year become available for contracts
15 under section 202(h)(4)(A) of the Housing Act of 1959, as
16 amended by subsection (b) of this section, no project for
17 handicapped (primarily nonelderly) families approved for such
18 fiscal year pursuant to section 202 of such Act shall be pro-
19 vided assistance payments under section 8 of the United
20 States Housing Act of 1937, except pursuant to a reservation
21 for a contract to make such assistance payments that was
22 made before the first date that amounts for contracts under
23 such section 202(h)(4)(A) became available.

24 (e) **IMPLEMENTATION.**—Not later than the expiration
25 of the 120-day period following the date of the enactment of

1 this Act, the Secretary of Housing and Urban Development
 2 shall, to the extent amounts are approved in an appropriation
 3 Act for use under section 202(h)(4)(A) of the Housing Act of
 4 1959 for fiscal year 1988, publish in the Federal Register a
 5 notice of fund availability to implement the provisions of, and
 6 amendments made by, this section. The Secretary shall issue
 7 such rules as may be necessary to carry out such provisions
 8 and amendments for fiscal year 1988 and thereafter.

9 (f) **EFFECTIVE DATE AND APPLICABILITY.—**

10 (1) Except as otherwise provided in this section,
 11 the provisions of, and amendments made by, this sec-
 12 tion shall not apply with respect to projects with loans
 13 or loan reservations made under section 202 of the
 14 Housing Act of 1959 before the implementation date
 15 under subsection (e).

16 (2) Notwithstanding paragraph (1), the Secretary
 17 may apply the provisions of, and amendments made by,
 18 this section to any project in order to facilitate the de-
 19 velopment of such project in a timely manner.

20 **SEC. 283. SECTION 235 HOMEOWNERSHIP PROGRAM.**

21 The second sentence of section 235(h)(1) of the National
 22 Housing Act is amended by inserting after the third sentence
 23 the following new sentence: "Any amount of budget author-
 24 ity under this section that is recaptured by the Secretary

1 shall be made available for new contracts for assistance pay-
 2 ments under this section.”.

3 **SEC. 284. CONGREGATE SERVICES.**

4 Section 411(a) of the Congregate Housing Services Act
 5 of 1978 is amended to read as follows:

6 “(a) There are authorized to be appropriated to carry
 7 out this title \$10,000,000 for fiscal year 1988.”.

8 **SEC. 285. PROCEDURES AND POLICIES FOR MANDATORY**
 9 **MEAL PROGRAMS IN ASSISTED HOUSING FOR**
 10 **THE ELDERLY.**

11 **(a) EXEMPTIONS FROM MEAL PROGRAMS.—**

12 **(1) REQUIRED EXEMPTIONS.—**The owner of any
 13 assisted housing for the elderly that requires tenants to
 14 participate in a meal program shall grant a tenant an
 15 exemption from such participation if—

16 **(A)** the program cannot satisfactorily accom-
 17 modate the special dietary or health needs of the
 18 tenant, as certified by the physician of the tenant;

19 **(B)** the program cannot satisfactorily accom-
 20 modate the special diet or food practices of the
 21 tenant;

22 **(C)** participation in the program substantially
 23 interferes with the employment of the tenant; or

24 **(D)** participation in the program constitutes
 25 an unbearable financial hardship on the tenant,

1 taking into consideration the cost to the tenant of
 2 meals not covered by the program and other nec-
 3 essary living costs remaining after payment of
 4 charges for the program.

5 (2) **ADDITIONAL EXEMPTIONS.**—The owner of
 6 any assisted housing for the elderly that requires ten-
 7 ants to participate in a meal program may grant a
 8 tenant an exemption from such participation for any
 9 additional reason determined by the owner to be
 10 appropriate.

11 (b) **FINANCIAL ASSISTANCE.**—The owner of any assist-
 12 ed housing for the elderly that requires tenants to participate
 13 in a meal program may, in lieu of granting an exemption
 14 under subsection (a)(1)(D), provide the tenant with financial
 15 assistance toward the cost of participation in the program.

16 (c) **ACCEPTANCE OF FOOD STAMPS AS PAYMENT.**—
 17 The owner of any assisted housing for the elderly that re-
 18 quires tenants to participate in a meal program shall accept
 19 food stamps toward payment for the meals included in such
 20 program.

21 (d) **NOTICE AND RIGHT TO CONTEST.**—

22 (1) The owner of any assisted housing for the el-
 23 derly that requires tenants to participate in a meal pro-
 24 gram shall inform tenants of the exemptions listed
 25 under subsection (a)(1) and any additional exemptions

1 determined by the owner to be appropriate under sub-
2 section (a)(2), as well as the right to appeal a denial of
3 exemption pursuant to paragraph (2).

4 (2) The tenant shall have the right to appeal any
5 denial of a request for exemption to the Secretary or
6 his designee and the Secretary or his designee is au-
7 thorized to hear and decide such appeals.

8 (3) No owner of any assisted housing for the el-
9 derly may evict any tenant due to any dispute arising
10 out of a meal program, including failure of a tenant to
11 participate in a meal program or to pay for meals.
12 Before taking any other legal action for failure to par-
13 ticipate in a required meal program or to pay for
14 meals, the owner shall comply with this subsection.

15 (e) DEFINITIONS.—For purposes of this section:

16 (1) The term “assisted housing” means housing
17 that is assisted under section 202 of the Housing Act
18 of 1959, section 236 of the National Housing Act, or
19 section 8 of the United States Housing Act of 1937.

20 (2) The term “elderly” means any individual who
21 is not less than 62 years of age or any family the head
22 of which (or whose spouse) is not less than 62 years of
23 age.

1 (f) **REGULATIONS.**—The Secretary of Housing and
2 Urban Development shall issue such regulations as may be
3 necessary to carry out this section.

4 **SEC. 286. MODIFICATION OF RESTRICTION ON USE OF ASSIST-**
5 **ED HOUSING BY ALIENS.**

6 (a) **LIMITATION OF RESTRICTION TO NEW APPLICA-**
7 **TIONS.**—Section 214 of the Housing and Community Devel-
8 opment Act of 1980 is amended by inserting after subsection

9 (b) the following new subsection:

10 “(c)(1) In the case of any family in which any member is
11 a citizen of the United States, a national of the United
12 States, or an alien resident of the United States described in
13 any of the paragraphs (1) through (5) of subsection (a), the
14 restriction established in subsection (a) shall not apply to—

15 “(A) the continued provision of any financial as-
16 sistance commenced before the date of the enactment
17 of the Housing and Community Development Act of
18 1987 or the effective date of regulations issued to
19 carry out paragraph (1), whichever occurs later;

20 “(B) the provision of any financial assistance pur-
21 suant to a conversion from any other financial assist-
22 ance commenced before the date of the enactment of
23 the Housing and Community Development Act of 1987
24 or the effective date of regulations issued to carry out
25 paragraph (1), whichever occurs later; or

1 “(C) the provision of any financial assistance to
2 an individual displaced from a dwelling as a result of
3 an activity of the Federal Government or an activity
4 approved or assisted by the Federal Government.

5 “(2) Notwithstanding any other provision of law, the
6 Secretary of Housing and Urban Development may not make
7 financial assistance available for the benefit of—

8 “(A) any alien who—

9 “(i) has a residence in a foreign country that
10 such alien has no intention of abandoning;

11 “(ii) is a bona fide student qualified to pursue
12 a full course of study; and

13 “(iii) is admitted to the United States tempo-
14 rarily and solely for purposes of pursuing such a
15 course of study at an established institution of
16 learning or other recognized place of study in the
17 United States, particularly designated by such
18 alien and approved by the Attorney General after
19 consultation with the Department of Education of
20 the United States, which institution or place of
21 study shall have agreed to report to the Attorney
22 General the termination of attendance of each
23 nonimmigrant student (and if any such institution
24 of learning or place of study fails to make such

1 reports promptly the approval shall be with-
2 drawn); and

3 “(B) the alien spouse and minor children of any
4 alien described in subparagraph (A), if accompanying
5 such alien or following to join such alien.

6 (b) VERIFICATION PROCEDURES.—Section 214(d) of
7 the Housing and Community Development Act of 1980 (as
8 added by section 121(a)(2) of the Immigration Reform and
9 Control Act of 1986 (Pub. L. 99-603)) is amended—

10 (1) in paragraph (2), by inserting after “States”
11 the following: “and is not 62 years of age or older”;

12 (2) in paragraph (4), in the matter before subpara-
13 graph (A)—

14 (A) by inserting after “States” the following:
15 “and is not 62 years of age or older”; and

16 (B) by inserting “or recertification” after
17 “application”;

18 (3) in paragraph (4)(A)(i), by inserting after the
19 comma the following: “or to appeal the verification de-
20 termination of the Immigration and Naturalization
21 Service under paragraph (3),”;

22 (4) in paragraph (4)(B), by striking the matter
23 before clause (i) and inserting the following:

24 “(B) if any documents or additional informa-
25 tion are submitted as evidence under subpara-

1 graph (A), or if appeal is made to the Immigration
2 and Naturalization Service with respect to the
3 verification determination of the Service under
4 paragraph (3)—”;

5 (5) in paragraph (4)(B)(i), by inserting “or addi-
6 tional information” after “documents”;

7 (6) in paragraph (4)(B)(ii), by inserting “or
8 appeal” after “verification”;

9 (7) by inserting after paragraph (5) the following
10 new paragraph:

11 “(6) For purposes of paragraph (5)(B), the appli-
12 cable fair hearing process made available with respect
13 to any individual shall include not less than the follow-
14 ing procedural protections:

15 “(A) The Secretary shall provide the individ-
16 ual with written notice of the determination de-
17 scribed in paragraph (5) and of the opportunity for
18 a hearing with respect to the determination.

19 “(B) Upon timely request by the individual,
20 the Secretary shall provide a hearing before an
21 impartial hearing officer designated by the Secre-
22 tary, at which hearing the individual may produce
23 evidence of a satisfactory immigration status.

24 “(C) Not later than 45 days after the date of
25 the request of the individual for a hearing, the

1 Secretary shall notify the individual in writing of
 2 the decision of the hearing officer on the appeal of
 3 the determination.”; and

4 (8) by striking the last sentence and inserting the
 5 following: “For purposes of this subsection, the term
 6 ‘Secretary’ means the Secretary of Housing and Urban
 7 Development, a public housing agency, or another
 8 entity that determines the eligibility of an individual for
 9 financial assistance.”.

10 (c) ENFORCEMENT PROCEDURES.—Section 214(e) of
 11 the Housing and Community Development Act of 1980 (as
 12 added by section 121(a)(2) of the Immigration Reform and
 13 Control Act of 1986 (Pub. L. 99-603)) is amended—

14 (1) in the matter before paragraph (1), by insert-
 15 ing “of Housing and Urban Development” after
 16 “Secretary”;

17 (2) in paragraph (2), by inserting after
 18 “(d)(4)(A)(ii)” the following: “(or under any alternative
 19 system for verifying immigration status with the Immi-
 20 gration and Naturalization Service authorized in the
 21 Immigration Reform and Control Act of 1986 (Pub. L.
 22 99-603))”;

23 (3) in paragraph (3), by inserting after
 24 “(d)(4)(B)(ii)” the following: “(or under any alternative
 25 system for verifying immigration status with the Immi-

1 gration and Naturalization Service authorized in the
2 Immigration Reform and Control Act of 1986 (Pub. L.
3 99-603))"; and

4 (4) in paragraph (4), by inserting after "(d)(5)(B)"
5 the following: "(or provided for under any alternative
6 system for verifying immigration status with the Immi-
7 gration and Naturalization Service authorized in the
8 Immigration Reform and Control Act of 1986 (Pub. L.
9 99-603))".

10 (d) REIMBURSEMENT FOR COSTS OF IMPLEMENTA-
11 TION.—

12 (1) Section 214 of the Housing and Community
13 Development Act of 1980 (as amended by section
14 121(a)(2) of the Immigration Reform and Control Act
15 of 1986 (Pub. L. 99-603)) is amended by adding at the
16 end the following new subsection:

17 “(f) The Secretary of Housing and Urban Development
18 is authorized to pay to each public housing agency or other
19 entity an amount equal to 100 percent of the costs incurred
20 by the public housing agency or other entity in implementing
21 and operating an immigration status verification system
22 under subsection (d) (or under any alternative system for
23 verifying immigration status with the Immigration and Natu-
24 ralization Service authorized in the Immigration Reform and
25 Control Act of 1986 (Pub. L. 99-603)).”.

1 (2) The United States Housing Act of 1937 (as
2 amended by section 121(b)(6) of the Immigration
3 Reform and Control Act of 1986 (Pub. L. 99-603)) is
4 amended by striking section 20.

5 (e) **TRANSITIONAL CERTIFICATION AND DOCUMENTA-**
6 **TION PROVISIONS.**—In carrying out section 214 of the
7 Housing and Community Development Act of 1980 during
8 fiscal year 1988, the Secretary of Housing and Urban Devel-
9 opment shall require, as a condition of providing financial
10 assistance for the benefit of any individual, that such individ-
11 ual—

12 (1) declare in writing, under penalty of perjury,
13 whether or not such individual is a citizen or national
14 of the United States; and

15 (2) if not a citizen or national—

16 (A) declare in writing, under penalty of per-
17 jury, the immigration status of such individual, if
18 such individual is not less than 62 years of age; or

19 (B) provide such documentation regarding
20 the immigration status of such individual as the
21 Secretary may require by regulation.

22 (f) **EFFECTIVE DATES.**—

23 (1) The provisions of, and amendments made by,
24 subsections (a) and (e) shall take effect on the date of
25 the enactment of this Act.

1 (2) The amendments made by subsection (d) shall
2 take effect on October 1, 1987.

3 (3) The amendments made by subsections (b) and
4 (c) shall take effect on October 1, 1988.

5 **SEC. 287. PREVENTING FRAUD AND ABUSE IN DEPARTMENT**
6 **OF HOUSING AND URBAN DEVELOPMENT PRO-**
7 **GRAMS.**

8 (a) **DISCLOSURE OF SOCIAL SECURITY ACCOUNT**
9 **NUMBER.**—As a condition of initial or continuing eligibility
10 for participation in any program of the Department of Hous-
11 ing and Urban Development involving loans, grants, interest
12 or rental assistance of any kind, or mortgage or loan insur-
13 ance, and to ensure that the level of benefits provided under
14 such programs is proper, the Secretary of Housing and
15 Urban Development may require that an applicant or partici-
16 pant (including members of the household of an applicant or
17 participant) disclose his or her social security account number
18 or employer identification number to the Secretary.

19 (b) **DEFINITIONS.**—For purposes of this section, the
20 terms “applicant” and “participant” shall have such mean-
21 ings as the Secretary of Housing and Urban Development by
22 regulation shall prescribe. Such terms shall not include per-
23 sons whose involvement is only in their official capacity, such
24 as State or local government officials or officers of lending
25 institutions.

1 **SEC. 288. ENERGY CONSERVATION IN ASSISTED HOUSING.**

2 (a) **IN GENERAL.**—Any housing project, for which de-
3 velopment or rehabilitation is assisted under the United
4 States Housing Act of 1937 or section 202 of the Housing
5 Act of 1959 and commences after the 1-year period following
6 the date of the enactment of this Act, shall be developed or
7 rehabilitated in accordance with life-cycle cost-effective
8 energy conservation performance standards established by
9 the Secretary of Housing and Urban Development and de-
10 signed to ensure the lowest total construction, rehabilitation,
11 and operating costs over the estimated life of the building.

12 (b) **CONSTRUCTION COST LIMITS.**—The Secretary
13 shall revise the cost limits applicable to the development or
14 rehabilitation of housing assisted under the United States
15 Housing Act of 1937 and section 202 of the Housing Act of
16 1959 for purposes of taking into consideration life-cycle costs
17 of the structure and major energy consuming heating and
18 cooling systems.

19 (c) **REGULATIONS.**—The Secretary of Housing and
20 Urban Development shall, not later than the expiration of the
21 1-year period following the date of the enactment of this Act,
22 issue regulations establishing the standards referred to in
23 subsection (a) and revising the cost limits referred to in sub-
24 section (b).

1 SEC. 289. ANNUAL REPORT ON CHARACTERISTICS OF FAMI-
 2 LIES IN ASSISTED HOUSING.

3 (a) IN GENERAL.—The Secretary of Housing and
 4 Urban Development shall include in the annual report under
 5 section 8 of the Housing and Urban Development Act de-
 6 scriptions of the characteristics of families assisted under
 7 each of the following programs of assistance: public housing,
 8 section 8 of the United States Housing Act of 1937 (other
 9 than subsection (o) of such section), section 8(o) of the United
 10 States Housing Act of 1937, and section 202 of the Housing
 11 Act of 1959.

12 (b) SPECIFIC REQUIREMENTS.—The descriptions re-
 13 quired in subsection (a) shall include information with respect
 14 to—

- 15 (1) family size, including the number of children;
- 16 (2) amount and sources of family income;
- 17 (3) the age, race, and sex of family members; and
- 18 (4) whether the head of the family (or the spouse
 19 of such person) is a member of the armed forces.

20 SEC. 290. USE OF CERTAIN EXCESS RENTAL CHARGES FOR AS-
 21 SISTANCE FOR TROUBLED MULTIFAMILY
 22 HOUSING PROJECTS.

23 Section 236(f)(3) of the National Housing Act is amend-
 24 ed by striking “1985” and inserting “1988”.

1 **SEC. 291. HOUSING DEMONSTRATION PROJECT.**

2 Section 225(i) of the Housing and Urban-Rural Recov-
3 ery Act of 1983 is amended to read as follows:

4 “(i) There are authorized to be appropriated to carry out
5 this section \$10,000,000 for fiscal year 1988. Any amount
6 appropriated under this subsection shall remain available
7 until expended.”.

8 **SEC. 292. FLEXIBLE SUBSIDY ASSISTANCE FOR CERTAIN**
9 **HOUSING PROJECTS FOR ELDERLY OR HANDI-**
10 **CAPPED FAMILIES.**

11 (a) **PURPOSES.**—Section 201(a) of the Housing and
12 Community Development Amendments of 1978 is amended
13 by inserting “the Housing Act of 1959,” after “1937,”.

14 (b) **ELIGIBILITY FOR ASSISTANCE.**—Section
15 201(c)(1)(A) of the Housing and Community Development
16 Amendments of 1978 is amended by inserting before the
17 semicolon at the end the following: “, or received a loan
18 under section 202 of the Housing Act of 1959 more than 15
19 years before the date on which assistance is made available
20 under this section”.

21 **SEC. 293. HOUSING ASSISTANCE TECHNICAL AMENDMENTS.**

22 (a) **RENTAL HOUSING FOR LOWER INCOME FAMI-**
23 **LIES.**—The last sentence of section 236(i)(1) of the National
24 Housing Act is amended by striking “(h)” and inserting
25 “(f)(4)”.

1 (b) DEFINITION OF DISABILITY.—Section 3(b)(3)(A) of
2 the United States Housing Act of 1937 is amended—

3 (1) by striking “or” the first place it appears and
4 inserting a comma; and

5 (2) by striking “or in section 102 of the Develop-
6 mental Disabilities Services and Facilities Construction
7 Amendments of 1970” and inserting the following: “,
8 has a developmental disability as defined in section
9 102(7) of the Developmental Disabilities Assistance
10 and Bill of Rights Act (42 U.S.C. 6001(7))”.

11 (c) LOWER INCOME HOUSING CONTRACT PROVI-
12 SIONS.—The first sentence of section 6(a) of the United
13 States Housing Act of 1937 is amended by inserting “The”
14 before “Secretary”.

15 (d) HOUSING DEVELOPMENT GRANTS.—Section
16 17(d)(7)(A) of the United States Housing Act of 1937 is
17 amended by striking “title” and inserting “subsection”.

18 (e) HOUSING FOR THE ELDERLY AND HANDI-
19 CAPPED.—

20 (1) The third sentence of section 202(d)(4) of the
21 Housing Act of 1959 is amended by striking “is a de-
22 velopmentally disabled individual as defined in section
23 102(5) of the Developmental Disabilities Services and
24 Facilities Construction Amendments of 1950” and in-
25 serting the following: “has a developmental disability

1 as defined in section 102(7) of the Developmental Dis-
 2 abilities Assistance and Bill of Rights Act (42 U.S.C.
 3 6001(7))”.

4 (2) Section 202(f) of the Housing Act of 1959 is
 5 amended by striking “section 134” and inserting “sec-
 6 tion 133”.

7 (3) Section 202(l) of the Housing Act of 1959 is
 8 amended by striking “difference” and inserting “differ-
 9 ent”.

10 (f) RENT SUPPLEMENTS.—Section 101(j)(1)(D) of the
 11 Housing and Urban Development Act of 1965 is amended by
 12 striking “divided” and inserting “dividend”.

13 **TITLE III—RURAL HOUSING**

14 **SEC. 301. PROGRAM AUTHORIZATIONS.**

15 (a) INSURANCE AND GUARANTEE AUTHORITY.—Sec-
 16 tion 513(a)(1) of the Housing Act of 1949 is amended to read
 17 as follows:

18 “(a)(1) The Secretary may, to the extent approved in
 19 appropriation Acts, insure and guarantee loans under this
 20 title during fiscal year 1988 in an aggregate amount not to
 21 exceed \$3,238,000,000, as follows:

22 “(A) For insured or guaranteed loans under sec-
 23 tion 502 on behalf of borrowers receiving assistance
 24 under section 521(a)(1), \$1,700,000,000.

25 “(B) For loans under section 504, \$17,000,000.

1 “(C) For insured loans under section 514,
2 \$20,000,000.

3 “(D) For insured loans under section 515,
4 \$1,500,000,000.

5 “(E) For site loans under section 524,
6 \$1,000,000.”.

7 (b) AUTHORIZATION OF APPROPRIATIONS.—Section
8 513(b) of the Housing Act of 1949 is amended to read as
9 follows:

10 “(b) There are authorized to be appropriated for fiscal
11 year 1988, and to remain available until expended, the fol-
12 lowing amounts:

13 “(1) For grants under section 504, \$12,500,000.

14 “(2) For purposes of section 509(c), \$1,000,000.

15 “(3) Such sums as may be necessary to meet pay-
16 ments on notes or other obligations issued by the Sec-
17 retary under section 511 equal to—

18 “(A) the aggregate of the contributions made
19 by the Secretary in the form of credits on princi-
20 pal due on loans made pursuant to section 503;
21 and

22 “(B) the interest due on a similar sum repre-
23 sented by notes or other obligations issued by the
24 Secretary.

1 “(4) For financial assistance under section 516,
2 \$11,000,000.

3 “(5) For grants under section 523(f), \$8,000,000.

4 “(6) For grants under section 533, \$5,000,000.”.

5 (c) RENTAL ASSISTANCE PAYMENT CONTRACTS.—

6 Section 513(c) of the Housing Act of 1949 is amended to
7 read as follows:

8 “(c)(1) The Secretary, to the extent approved in appro-
9 priation Acts for fiscal year 1988, may enter into rental as-
10 sistance payment contracts under section 521(a)(2)(A) aggre-
11 gating \$216,000,000.

12 “(2) Any authority approved in appropriation Acts for
13 fiscal year 1988 or any succeeding fiscal year for rental as-
14 sistance payment contracts under section 521(a)(2)(A) shall
15 be used by the Secretary—

16 “(A) to renew rental assistance payment contracts
17 that expire during such fiscal year;

18 “(B) to provide amounts required to continue
19 rental assistance payments for the remaining period of
20 an existing contract, in any case in which the original
21 amount of rental assistance is used prior to the end of
22 the term of the contract; and

23 “(C) to make additional rental assistance payment
24 contracts for existing or newly constructed dwelling
25 units.”.

1 (d) RENTAL HOUSING LOAN AUTHORITY.—Section
2 515(b)(4) of the Housing Act of 1949 is amended by striking
3 “September 30, 1987” and inserting “September 30, 1988”.

4 (e) MUTUAL AND SELF-HELP HOUSING GRANT AND
5 LOAN AUTHORITY.—Section 523(f) of the Housing Act of
6 1949 is amended by striking “September 30, 1987” and in-
7 serting “September 30, 1988”.

8 SEC. 302. INCOME LEVELS FOR FAMILY ELIGIBILITY.

9 (a) IN GENERAL.—Section 501(b)(4) of the Housing
10 Act of 1949 is amended by adding at the end the following
11 new sentence: “Notwithstanding the preceding sentence, the
12 maximum income levels established for purposes of this title
13 for such families and persons in the Virgin Islands shall not
14 be less than the highest such levels established for purposes
15 of this title for such families and persons in American Samoa,
16 Guam, the Northern Mariana Islands, and the Trust Terri-
17 tory of the Pacific Islands.”.

18 (b) APPLICABILITY.—The amendment made by subsec-
19 tion (a) shall be applicable to any determination of eligibility
20 for assistance under title V of the Housing Act of 1949 made
21 on or after the date of the enactment of this Act.

22 SEC. 303. DEFINITION OF VERY LOW-INCOME FAMILIES.

23 Section 501(b)(4) of the Housing Act of 1949 (as
24 amended by section 302 of this Act) is further amended by
25 adding at the end the following new sentence: “For purposes

1 of assistance under section 502, the term 'very low-income
 2 families or persons' mean families and persons whose in-
 3 comes do not exceed the applicable level established pursuant
 4 to the preceding sentences, or 50 percent of the statewide
 5 nonmetropolitan median income (as determined and adjusted
 6 by the Secretary of Housing and Urban Development in con-
 7 sultation with the Secretary of Agriculture), whichever
 8 amount is higher.'".

9 **SEC. 304. RURAL HOUSING ESCROW ACCOUNTS.**

10 Section 501(e) of the Housing Act of 1949 is amended
 11 by striking the first sentence and inserting the following:
 12 "The Secretary shall, not later than 60 days after the date of
 13 the enactment of the Housing and Community Development
 14 Act of 1987, establish procedures under which any borrower
 15 under this title may, at the option of the borrower, make
 16 periodic payments for the purpose of taxes, insurance, and
 17 such other necessary expenses as the Secretary determines to
 18 be appropriate.'".

19 **SEC. 305. REQUIREMENT OF LOCAL CONSULTATION FOR DO-**
 20 **MESTIC FARM LABOR HOUSING.**

21 (a) **INSURED LOAN PROGRAM.**—Section 514 of the
 22 Housing Act of 1949 is amended by adding at the end the
 23 following new subsection:

24 "(i) The Secretary may not insure a loan under this sec-
 25 tion (regardless of the number of units proposed to be includ-

1 ed in the housing and related facilities involved) unless the
 2 application for the loan includes a certification that the appli-
 3 cant has consulted with the unit of general local government
 4 in which the housing and related facilities are to be located.”.

5 (b) GRANT PROGRAM.—Section 516 of the Housing
 6 Act of 1949 is amended by adding at the end the following
 7 new subsection:

8 “(j) The Secretary may not provide financial assistance
 9 under this section (regardless of the number of units proposed
 10 to be included in the housing and related facilities involved)
 11 unless the application for the financial assistance includes a
 12 certification that the applicant has consulted with the unit or
 13 general local government in which the housing and related
 14 facilities are to be located.”.

15 (c) APPLICABILITY.—The amendments made by this
 16 section shall apply only to applications submitted after the
 17 date of the enactment of this Act.

18 SEC. 306. RURAL AREA CLASSIFICATION.

19 Section 520 of the Housing Act of 1949 is amended by
 20 striking “September 30, 1987” in the last sentence and in-
 21 serting “September 30, 1988”.

22 SEC. 307. PROCEDURES FOR REDUCTION OF INTEREST
 23 CREDITS.

24 Section 521(a)(1)(B) of the Housing Act of 1949 is
 25 amended by adding at the end the following new sentence:

1 "In the case of assistance provided under this subparagraph
2 with respect to a loan under section 502, the Secretary may
3 not reduce, cancel, or refuse to renew the assistance due to
4 an increase in the adjusted income of the borrower if the
5 reduction, cancellation, or nonrenewal will cause the borrow-
6 er to be unable to reasonably afford the resulting payments
7 required under the loan."

8 **SEC. 308. STUDY OF MORTGAGE CREDIT IN RURAL AREAS.**

9 The Secretary of Housing and Urban Development shall
10 conduct a study of the availability and use of funds for the
11 purchase and improvement of residential real property in
12 rural areas, particularly in communities that have populations
13 of not more than 2,500 individuals. Not later than April 1,
14 1988, the Secretary shall submit to the Congress a detailed
15 report setting forth the findings of the Secretary as a result of
16 the study.

17 **SEC. 309. RURAL HOUSING TECHNICAL AMENDMENTS.**

18 (a) **DEFINITIONS.**—Section 501(b)(3) of the Housing
19 Act of 1949 is amended by striking "is a developmentally
20 disabled individual as defined in section 102(7) of the Devel-
21 opment Disabilities Services and Facilities Construction Act"
22 and inserting the following: "has a developmental disability
23 as defined in section 102(7) of the Developmental Disabilities
24 Assistance and Bill of Rights Act (42 U.S.C. 6001(7))".

1 (b) FARM LABOR HOUSING.—Section 514(f)(1) of the
2 Housing Act of 1949 is amended by striking “and” at the
3 end.

4 (c) HOUSING FOR ELDERLY FAMILIES.—Section
5 515(o)(1) of the Housing Act of 1949 is amended by striking
6 “effective”.

7 (d) LOANS TO LOW- AND MODERATE-INCOME FAMI-
8 LIES.—Section 521(a) of the Housing Act of 1949 is
9 amended—

10 (1) in paragraph (1)(A), by striking “, except” and
11 all that follows through “charges”; and

12 (2) in paragraph (2)(A), by striking “; or” and in-
13 serting “, or”.

14 (e) HOUSING FOR RURAL TRAINEES.—Section 522(a)
15 of the Housing Act of 1949 is amended by striking the
16 comma after “Health”.

17 (f) CONDOMINIUM HOUSING.—

18 (1) Section 526(a) of the Housing Act of 1949 is
19 amended by striking “and” the first place it appears.

20 (2) Section 526(c) of the Housing Act of 1949 is
21 amended by striking “and” the first place it appears.

22 (g) HOUSING PRESERVATION GRANTS.—

23 (1) Section 533(e)(1)(B)(iii) of the Housing Act of
24 1949 is amended by inserting “to” before “refuse”.

1 (2) Section 533(g) of the Housing Act of 1949 is
 2 amended by striking "persons of low income and very
 3 low-income" and inserting "low income families or
 4 persons and very low-income families or persons".

5 **TITLE IV—MORTGAGE INSURANCE**
 6 **AND SECONDARY MORTGAGE**
 7 **MARKET PROGRAMS**

8 **Subtitle A—FHA Mortgage Insurance**
 9 **Programs**

10 **SEC. 401. EXTENSION OF FHA MORTGAGE INSURANCE**
 11 **PROGRAMS.**

12 (a) **TITLE I INSURANCE.**—Section 2(a) of the National
 13 Housing Act is amended by striking "September 30, 1987"
 14 in the first sentence and inserting "September 30, 1988".

15 (b) **GENERAL INSURANCE.**—Section 217 of the Nation-
 16 al Housing Act is amended by striking "September 30,
 17 1987" and inserting "September 30, 1988".

18 (c) **LOW AND MODERATE INCOME HOUSING INSUR-**
 19 **ANCE.**—Section 221(f) of the National Housing Act is
 20 amended by striking "September 30, 1987" in the fifth sen-
 21 tence and inserting "September 30, 1988".

22 (d) **SECTION 235 HOMEOWNERSHIP.**—

23 (1) **ASSISTANCE PAYMENTS AUTHORITY.**—Sec-
 24 tion 235(h)(1) of the National Housing Act is amended

1 by striking "September 30, 1987" in the last sentence
2 and inserting "September 30, 1988".

3 (2) **INSURANCE AUTHORITY.**—Section 235(m) of
4 the National Housing Act is amended by striking
5 "September 30, 1987" and inserting "September 30,
6 1988".

7 (3) **HOUSING STIMULUS AUTHORITY.**—Section
8 235(q)(1) of the National Housing Act is amended by
9 striking "September 30, 1987" in the last sentence
10 and inserting "September 30, 1988".

11 (e) **CO-INSURANCE.**—

12 (1) **GENERAL AUTHORITY.**—Section 244(d) of the
13 National Housing Act is amended by striking "Septem-
14 ber 30, 1987" and inserting "September 30, 1988".

15 (2) **RENTAL REHABILITATION AND DEVELOP-**
16 **MENT PROJECTS.**—Section 244(h) of the National
17 Housing Act is amended by striking "September 30,
18 1987" in the last sentence and inserting "Septem-
19 ber 30, 1988".

20 (f) **GRADUATED PAYMENT AND INDEXED MORTGAGE**
21 **INSURANCE.**—Section 245(a) of the National Housing Act is
22 amended by striking "September 30, 1987" in the last sen-
23 tence and inserting "September 30, 1988".

24 (g) **REINSURANCE CONTRACTS.**—Section 249(a) of the
25 National Housing Act is amended by striking "Septem-

ber 30, 1987" in the second sentence and inserting
"September 30, 1988".

(h) ARMED SERVICES HOUSING INSURANCE.—

(1) CIVILIAN EMPLOYEES OF ARMED FORCES.—

Section 809(f) of the National Housing Act is amended
by striking "September 30, 1987" in the last sentence
and inserting "September 30, 1988".

(2) DEFENSE HOUSING FOR IMPACTED AREAS.—

Section 810(k) of the National Housing Act is amended
by striking "September 30, 1987" in the last sentence
and inserting "September 30, 1988".

(i) LAND DEVELOPMENT INSURANCE.—Section
1002(a) of the National Housing Act is amended by striking
"September 30, 1987" in the last sentence and inserting
"September 30, 1988".

(j) GROUP PRACTICE FACILITIES INSURANCE.—Sec-
tion 1101(a) of the National Housing Act is amended by
striking "September 30, 1987" in the last sentence and in-
serting "September 30, 1988".

SEC. 402. LIMITATION ON AMOUNT TO BE INSURED UNDER
NATIONAL HOUSING ACT.

Section 531 of the National Housing Act is amended to
read as follows:

1 **"LIMITATION ON COMMITMENTS TO INSURE LOANS AND**
 2 **MORTGAGES**

3 **"SEC. 531. (a) The authority of the Secretary to enter**
 4 **into commitments to insure loans and mortgages under this**
 5 **Act shall be effective for any fiscal year only to such extent**
 6 **or in such amounts as are or have been provided in appro-**
 7 **priation Acts for such fiscal year.**

8 **"(b) Notwithstanding any other provision of law and**
 9 **subject only to the absence of qualified requests for insurance,**
 10 **to the authority provided in this Act, and the limitation in**
 11 **subsection (a), the Secretary shall enter into commitments**
 12 **during fiscal year 1988 to insure mortgages under this Act**
 13 **with an aggregate principal amount of \$100,000,000,000."**

14 **SEC. 403. LIMITATION ON FEDERAL HOUSING ADMINISTRA-**
 15 **TION INSURANCE PREMIUMS.**

16 **(a) IN GENERAL.—Section 203(c) of the National**
 17 **Housing Act is amended by striking the subsection designa-**
 18 **tion and the first sentence and inserting the following:**

19 **"(c)(1)(A) The Secretary may fix premium charges for**
 20 **the insurance of mortgages or loans under the separate sec-**
 21 **tions of this title, subject to the provisions of this paragraph.**

22 **"(B) The premium charge shall not be more than an**
 23 **amount equal to 3.8 percent of the principal obligation of the**
 24 **mortgage or loan, nor more than an amount equal to 0.50**
 25 **percent per annum of the principal obligation of the mortgage**

1 or loan outstanding at any time without taking into account
 2 delinquent payments or prepayments, in the case of any
 3 mortgage or loan—

4 “(i) insured under this title and secured by a 1- to
 5 4-family dwelling; or

6 “(ii) otherwise insured under any of the following
 7 provisions: subsection (b), subsection (h), subsection (i),
 8 subsection (n), subsection (k), section 220, section
 9 220(h), section 221(d)(2), section 222, section 223(e),
 10 section 234, section 235, section 237, section 238(c),
 11 or section 240.

12 “(C) In the case of any mortgage or loan insured under
 13 this title that is not subject to subparagraph (B) or (D), the
 14 premium charge shall not be more than an amount equivalent
 15 to 1 percent per annum of the principal obligation of the
 16 mortgage or loan outstanding at any time, without taking
 17 into account delinquent payments or prepayments.

18 “(D) In the case of insurance under section 245, 247,
 19 251, 252, or 253, or any other financing mechanism provid-
 20 ing alternative methods for repayment of a mortgage or loan
 21 that is determined by the Secretary to involve additional
 22 risk—

23 “(i) the premium charges may be different from
 24 the premium charges for mortgages insured under
 25 other provisions of this section;

1 “(ii) the premium charges shall be fixed by the
2 Secretary at a level not more than necessary to create
3 reserves sufficient to meet anticipated claims based
4 upon actuarial analysis and to compensate for actual
5 administrative expenses, but for no other purpose; and

6 “(iii) the Secretary shall submit to the Congress
7 not less than 90 days before any increase in any such
8 premium charge a certification that the increase is
9 solely for the purpose specified in clause (ii).

10 “(E)(i) Except as provided in clause (ii), any reduced
11 premium charge so fixed and computed may, in the discretion
12 of the Secretary, also be made applicable in such manner as
13 the Secretary shall prescribe to each insured mortgage or
14 loan outstanding under the section or sections involved at the
15 time the reduced premium charge is fixed.

16 “(ii) The amendments made to this paragraph by the
17 Housing and Community Development Act of 1987 shall not
18 be applicable to the insurance of any mortgage or loan under
19 this title pursuant to a commitment to insure entered into
20 before the date of the enactment of such Act.”.

21 (b) CONFORMING AMENDMENTS.—

22 (1) Section 203(c) of the National Housing Act is
23 amended—

1 (A) by inserting "(2)" before the second sen-
 2 tence and redesignating such sentence as a para-
 3 graph (2);

4 (B) by inserting "(3)" before the third sen-
 5 tence and redesignating such sentence as a para-
 6 graph (3);

7 (C) by inserting "(4)" before the fourth sen-
 8 tence and redesignating such sentence as a para-
 9 graph (4); and

10 (D) in the last proviso, by redesignating
 11 clauses (1) and (2) as clauses (A) and (B),
 12 respectively.

13 (2) The first sentence of section 220(h)(5) of the
 14 National Housing Act is amended to read as follows:
 15 "The Secretary may fix premium charges for the insur-
 16 ance of home improvement loans under this subsection,
 17 subject to section 203(c)(1)(B)."

18 **SEC. 404. PROHIBITION OF USE OF SINGLE FAMILY MORT-**
 19 **GAGE INSURANCE BY INVESTORS.**

20 (a) **IN GENERAL.**—Section 203 of the National Housing
 21 Act is amended by inserting the following new subsection
 22 before subsection (h):

23 "(g)(1) The Secretary may insure a mortgage under this
 24 title that is secured by a 1- to 4-family dwelling, or approve a
 25 substitute mortgagor with respect to any such mortgage, only

1 if the mortgagor is to occupy the dwelling as his or her prin-
 2 cipal residence or as a secondary residence, as determined by
 3 the Secretary.

4 “(2) The occupancy requirement established in para-
 5 graph (1) shall not apply to any mortgagor (or co-mortgagor,
 6 as appropriate) that is—

7 “(A) a public entity, as provided in section 214 or
 8 247;

9 “(B) a private nonprofit or public entity, as pro-
 10 vided in section 221(h) or 235(j);

11 “(C) an Indian tribe, as provided in section 248;
 12 or

13 “(D) a serviceperson who is unable to meet such
 14 requirement because of his or her duty assignment, as
 15 provided in section 216 or subsection (b)(4) or (f) of
 16 section 222.

17 “(3) For purposes of this subsection, the term ‘substitute
 18 mortgagor’ means a person who, upon the release by a mort-
 19 gagee of a previous mortgagor from personal liability on the
 20 mortgage note, assumes such liability and agrees to pay the
 21 mortgage debt.”.

22 (b) CONFORMING AMENDMENTS.—

23 (1) Section 203(b)(2) of the National Housing Act
 24 is amended—

1 (A) in the first sentence, by striking “(wheth-
2 er” and all that follows through “purposes)”; and

3 (B) in the second sentence, by striking the
4 following: “to be occupied as a principal residence
5 of the owner”.

6 (2) Section 203(b) of the National Housing Act is
7 amended by striking paragraph (8).

8 (3) Section 203(h) of the National Housing Act is
9 amended by striking “is the owner and occupant”.

10 (4) Section 203(i) of the National Housing Act is
11 amended—

12 (A) by striking the first proviso; and

13 (B) by striking “*further*” the first place it ap-
14 pears.

15 (5) The first sentence of section 203(o)(2) of the
16 National Housing Act is amended by striking
17 “occupant”.

18 (6) The first sentence of section 203(p)(2) of the
19 National Housing Act is amended by striking “owner-
20 occupant” and inserting “owner”.

21 (7) The fourth sentence of section 214 of the Na-
22 tional Housing Act is amended by striking the follow-
23 ing: “shall be the owner and occupant of the property
24 or”.

1 (8) Section 216 of the National Housing Act is
2 amended—

3 (A) by striking “that the mortgagor be the
4 occupant” and inserting “with respect to the oc-
5 cupancy of the mortgagor”; and

6 (B) by striking “occupy the property” each
7 place it appears and inserting “meet such require-
8 ment”.

9 (9) Section 220(d)(3)(A) of the National Housing
10 Act is amended—

11 (A) by inserting “and” at the end of clause
12 (i);

13 (B) by striking clauses (ii) and (iii);

14 (C) in clause (iv), by striking the following:
15 “(except as provided in clause (iii))”; and

16 (D) by redesignating clause (iv) as clause (ii).

17 (10) Section 221(d)(2) of the National Housing
18 Act is amended—

19 (A) by striking the colon at the end of sub-
20 paragraph (A)(iv) and all that follows through
21 “*Provided further, That*” the first place it ap-
22 pears, and inserting “, except that”;

23 (B) by striking “*Provided, That (i)*” and all
24 that follows through “(1) in” and inserting the fol-
25 lowing: “*Provided, That (i)(1) in*”;

1 (C) by striking the penultimate proviso; and

2 (D) in the last proviso, by striking the fol-
 3 lowing: “, if the mortgagor is the owner and oc-
 4 cupant of the property such” and inserting “the”.

5 (11) Section 221(d)(6)(ii) of the National Housing
 6 Act is amended by striking the following: “is an
 7 owner-occupant of the property and”.

8 (12) The first sentence of section 221(h)(6) of the
 9 National Housing Act is amended by striking “and oc-
 10 cupied”.

11 (13) Section 221(h)(8) of the National Housing
 12 Act is amended by striking the following: “if one of the
 13 units is to be occupied by the owner”.

14 (14) Subsections (b)(4) and (f) of section 222 of
 15 the National Housing Act are amended by inserting
 16 “as a principal residence” after “occupies the proper-
 17 ty” each place it appears.

18 (15) Section 223(a) of the National Housing Act
 19 is amended by inserting after “this Act,” the first place
 20 it appears the following: “other than the limitation in
 21 section 203(g),”.

22 (16) The first sentence of section 223(e) of the
 23 National Housing Act is amended by inserting after
 24 “title XI,” the following: “other than the limitation in
 25 section 203(g),”.

1 (17) Section 234(c) of the National Housing Act
2 is amended by striking the fourth sentence.

3 (18) Section 235(i)(3)(A) of the National Housing
4 Act is amended by striking the following: "one of the
5 units of which is to be occupied by the owner and".

6 (19) Section 235(j)(6) of the National Housing Act
7 is amended by striking the following: "if one of the
8 units is to be occupied by the owner".

9 (c) REPEAL OF VACATION AND SEASONAL HOME IN-
10 SURANCE PROGRAM.—Section 203 of the National Housing
11 Act is amended by striking subsection (m).

12 (d) APPLICABILITY.—The amendments made by this
13 section shall apply only with respect to—

14 (1) mortgages insured—

15 (A) pursuant to a conditional commitment
16 issued on or after the date of the enactment of
17 this Act; or

18 (B) in accordance with the direct endorse-
19 ment program (24 CFR 200.163), if the approved
20 underwriter of the mortgagee signs the appraisal
21 report for the property on or after the date of the
22 enactment of this Act; and

23 (2) the approval of substitute mortgagors, referred
24 to in the amendment made by subsection (a), if the
25 original mortgagor was subject to such amendment.

1 (e) **TRANSITION PROVISIONS.**—Any mortgage insur-
 2 ance provided under title II of the National Housing Act, as
 3 it existed immediately before the date of the enactment of
 4 this Act, shall continue to be governed (to the extent applica-
 5 ble) by the provisions specified in subsections (a) through (c),
 6 as such provisions existed immediately before such date.

7 **SEC. 405. ACTIONS TO REDUCE LOSSES UNDER SINGLE**
 8 **FAMILY MORTGAGE INSURANCE PROGRAM.**

9 Section 208 of the National Housing Act is amended by
 10 adding at the end the following new subsections:

11 “(r) The Secretary shall take appropriate actions to
 12 reduce losses under the mortgage insurance program carried
 13 out under this section. Such actions shall include—

14 “(1) independent verification by the Secretary
 15 after loan approval of the ability of borrowers to pay,
 16 to be carried out by the least expensive method of veri-
 17 fication—

18 “(A) with respect to not less than 10 percent
 19 of the mortgage applications submitted by each
 20 lender in both the direct endorsement and prior
 21 approval programs; and

22 “(B) with respect to not less than 20 percent
 23 of the mortgage applications involving properties
 24 located in units of general local government (as
 25 defined in section 102 of the Housing and Com-

1 community Development Act of 1974) where the de-
2 fault rate on mortgages insured under this section
3 exceeds 120 percent of the national default rate
4 on such mortgages during the most recent 12-
5 month period for which data are available;

6 “(2) an annual review by the Secretary of the
7 rate of early serious defaults and claims, in accordance
8 with subsection (t);

9 “(3) independent verification by the Secretary of
10 all credit reports indicating no prior credit history;

11 “(4) independent verification by the Secretary of
12 all appraisals involving investor-owned property that is
13 acquired by the investor less than 12 months prior to
14 the date of the mortgage application; and

15 “(5) requiring reviews of the credit standing of
16 each person seeking to assume a mortgage insured
17 under this section during the 24-month period follow-
18 ing (A) the date on which the mortgage is endorsed for
19 insurance; or (B) the date of a previous assumption of
20 the mortgage.

21 “(s) In conducting field reviews of appraisals, the Secre-
22 tary may not use the services of fee appraisers who are em-
23 ployed by the Secretary to appraise single-family dwellings
24 that are subject to mortgages insured under this title.

1 “(t)(1) To reduce losses in connection with mortgage in-
 2 surance programs under this section, the Secretary shall
 3 review, not less than annually, the rate of early serious de-
 4 faults and claims involving mortgagees approved under this
 5 section. On the basis of the review, the Secretary shall notify
 6 each mortgagee that, as determined by the Secretary, has an
 7 above-normal rate of early serious defaults and claims during
 8 the preceding year. In the notification, the Secretary shall
 9 require each mortgagee to submit a report, by a date deter-
 10 mined by the Secretary, that contains (A) an explanation for
 11 the above-normal rate of early serious defaults and claims;
 12 (B) a plan for corrective action, both with respect to mort-
 13 gages in default and the general mortgage-processing system
 14 of the mortgagee; and (C) the date by which the corrective
 15 action will be begun and completed. If the Secretary does not
 16 agree with the plan or schedule for implementation, a mutu-
 17 ally agreeable plan and schedule shall be determined.

18 “(2) Failure of a mortgagee to submit a report accepta-
 19 ble to the Secretary by the date determined by the Secretary
 20 or to commence or complete the plan for corrective action by
 21 the date agreed upon by the Secretary may be cause for sus-
 22 pension of the mortgagee from participation in programs
 23 under this Act.”.

1 **SEC. 404. REFINANCING MORTGAGE INSURANCE FOR HOSPI-**
 2 **TALS, NURSING HOMES, INTERMEDIATE CARE**
 3 **FACILITIES, AND BOARD AND CARE HOMES.**

4 (a) **STATE CERTIFICATION REQUIREMENT.**—Section
 5 223(f)(4)(D) of the National Housing Act is amended to read
 6 as follows:

7 “(D) the applicable requirements for certificates,
 8 studies, and statements of section 232 (for the existing
 9 nursing home, intermediate care facility, board and
 10 care home, or any combination thereof, proposed to be
 11 refinanced) or of section 242 (for the existing hospital
 12 proposed to be refinanced) have been met.”.

13 (b) **REFINANCING INSURANCE FOR NURSING HOMES,**
 14 **INTERMEDIATE CARE FACILITIES, AND BOARD AND CARE**
 15 **HOMES.**—Section 223(f) of the National Housing Act is
 16 amended—

17 (1) in paragraph (1), by inserting after “existing
 18 hospital” the following: “(or existing nursing home, ex-
 19 isting intermediate care facility, existing board and
 20 care home, or any combination thereof); and

21 (2) in paragraph (4) (other than in subparagraph
 22 (D)), by inserting after “existing hospital” each place it
 23 appears the following: “(or existing nursing home, ex-
 24 isting intermediate care facility, existing board and
 25 care home, or any combination thereof)”.

1 (c) **REGULATIONS.**—The Secretary of Housing and
 2 Urban Development shall issue such regulations as may be
 3 necessary to carry out the amendment made by this section
 4 by not later than the expiration of the 90-day period follow-
 5 ing the date of the enactment of this Act.

6 **SEC. 407. MORTGAGE INSURANCE FOR NURSING HOMES, IN-**
 7 **TERMEDIATE CARE FACILITIES, AND BOARD**
 8 **AND CARE HOMES.**

9 (a) **INSURANCE FOR PUBLIC NURSING HOMES.**—Sec-
 10 tion 232(b)(1) of the National Housing Act is amended by
 11 inserting “public facility,” before “proprietary”.

12 (b) **REQUIREMENT OF STATE APPROVAL.**—Section
 13 232(d)(4)(A) of the National Housing Act is amended by in-
 14 serting at the end the following new sentences: “If no such
 15 State agency exists, or if the State agency exists but is not
 16 empowered to provide a certification that there is a need for
 17 the home or facility or combined home and facility as re-
 18 quired in clause (i) of the first sentence, the Secretary shall
 19 not insure any mortgage under this section unless (i) the
 20 State in which the home or facility or combined home and
 21 facility is located has conducted or commissioned and paid for
 22 the preparation of an independent study of market need and
 23 feasibility that (I) is prepared in accordance with the princi-
 24 ples established by the American Institute of Certified Public
 25 Accountants; (II) assesses, on a marketwide basis, the impact

1 of the proposed home or facility or combined home and facili-
 2 ty on, and its relationship to, other health care facilities and
 3 services, the percentage of excess beds, demographic projec-
 4 tions, alternative health care delivery systems, and the reim-
 5 bursement structure of the home, facility, or combined home
 6 and facility; (III) is addressed to and is acceptable to the
 7 Secretary in form and substance; and (IV) in the event the
 8 State does not prepare the study, is prepared by a financial
 9 consultant selected by the State and approved by the Secre-
 10 tary; and (ii) the State complies with the other provisions of
 11 this subparagraph that would otherwise be required to be met
 12 by a State agency designated in accordance with section
 13 604(a)(1) or section 1521 of the Public Health Service Act.
 14 The proposed mortgagor may reimburse the State for the
 15 cost of the independent feasibility study required in the pre-
 16 ceding sentence.”.

17 (c) REGULATIONS.—The Secretary of Housing and
 18 Urban Development shall issue such regulations as may be
 19 necessary to carry out the amendments made by this section
 20 by not later than the expiration of the 90-day period follow-
 21 ing the date of the enactment of this Act.

22 **SEC. 408. REQUIREMENT OF STATE APPROVAL FOR MORT-**
 23 **GAGE INSURANCE FOR HOSPITALS.**

24 (a) IN GENERAL.—Section 242(d)(4) of the National
 25 Housing Act is amended by inserting at the end the following

1 new sentences: "If no such State agency exists, or if the
2 State agency exists but is not empowered to provide a certifi-
3 cation that there is a need for the hospital as set forth in
4 clause (A) of the first sentence, the Secretary shall not insure
5 any mortgage under this section unless (A) the State in which
6 the hospital is located has conducted or commissioned and
7 paid for the preparation of an independent study of market
8 need and feasibility that (i) is prepared in accordance with the
9 principles established by the American Institute of Certified
10 Public Accountants; (ii) assesses, on a marketwide basis, the
11 impact of the proposed hospital on, and its relationship to,
12 other health care facilities and services, the percentage of
13 excess beds, demographic projections, alternative health care
14 delivery systems, and the reimbursement structure of the
15 hospital; (iii) is addressed to and is acceptable to the Secre-
16 tary in form and substance; and (iv) in the event the State
17 does not prepare the study, is prepared by a financial consult-
18 ant selected by the State and approved by the Secretary; and
19 (B) the State complies with the other provisions of this para-
20 graph that would otherwise be required to be met by a State
21 agency designated in accordance with section 604(a)(1) or
22 section 1521 of the Public Health Service Act. The proposed
23 mortgagor may reimburse the State for the cost of the inde-
24 pendent feasibility study required in the preceding
25 sentence."

1 (b) **REGULATIONS.**—The Secretary of Housing and
 2 Urban Development shall issue such regulations as may be
 3 necessary to carry out the amendment made by this section
 4 by not later than the expiration of the 90-day period follow-
 5 ing the date of the enactment of this Act.

6 **SEC. 409. MORTGAGE INSURANCE ON HAWAIIAN HOME LANDS**
 7 **AND INDIAN RESERVATIONS.**

8 (a) **APPLICABILITY OF MORTGAGE INSURANCE ON**
 9 **HAWAIIAN HOME LANDS.**—Section 247(c)(1) of the Nation-
 10 al Housing Act is amended by inserting before the period at
 11 the end the following: “(or, in the case of an individual who
 12 succeeds a spouse or parent in an interest in a lease of Ha-
 13 waiian home lands, such lower percentage as may be estab-
 14 lished for such succession under section 209 of the Hawaiian
 15 Homes Commission Act, 1920, or under the corresponding
 16 provision of the Constitution of the State of Hawaii adopted
 17 under section 4 of the Act entitled ‘An Act to provide for the
 18 admission of the State of Hawaii into the Union’, approved
 19 March 18, 1959 (73 Stat. 5))”.

20 (b) **MORTGAGE INSURANCE ON HAWAIIAN HOME**
 21 **LANDS AS OBLIGATIONS OF GENERAL INSURANCE**
 22 **FUND.**—Section 247 of the National Housing Act is
 23 amended—

24 (1) by redesignating subsection (c) as subsection
 25 (d); and

1 (2) by inserting after subsection (b) the following
2 new subsection:

3 “(c) Notwithstanding any other provision of this Act,
4 the insurance of a mortgage using the authority contained in
5 this section shall be the obligation of the General Insurance
6 Fund established in section 519. The mortgagee shall be eli-
7 gible to receive the benefits of insurance as provided in sec-
8 tion 204 with respect to mortgages insured pursuant to this
9 section, except that (1) all references in section 204 to the
10 Mutual Mortgage Insurance Fund or the Fund shall be con-
11 strued to refer to the General Insurance Fund; and (2) all
12 references in section 204 to section 203 shall be construed to
13 refer to the section under which the mortgage is insured.”.

14 (c) MORTGAGE INSURANCE ON INDIAN RESERVATIONS
15 AS OBLIGATIONS OF GENERAL INSURANCE FUND.—Sec-
16 tion 248 of the National Housing Act is amended—

17 (1) in paragraphs (3) and (5) of subsection (f), by
18 striking “insurance fund” each place it appears and in-
19 serting “General Insurance Fund”;

20 (2) by redesignating subsections (f), (g), and (h) as
21 subsections (g), (h), and (i), respectively; and

22 (3) by inserting after subsection (e) the following
23 new subsection:

24 “(f) Notwithstanding any other provision of this Act, the
25 insurance of a mortgage using the authority contained in this

1 section shall be the obligation of the General Insurance Fund
 2 established in section 519. The mortgagee shall be eligible to
 3 receive the benefits of insurance as provided in section 204
 4 with respect to mortgages insured pursuant to this section,
 5 except that (1) all references in section 204 to the Mutual
 6 Mortgage Insurance Fund or the Fund shall be construed to
 7 refer to the General Insurance Fund; and (2) all references in
 8 section 204 to section 203 shall be construed to refer to the
 9 section under which the mortgage is insured.”.

10 SEC. 410. INCREASE IN AUTHORITY TO INSURE ADJUSTABLE
 11 RATE SINGLE FAMILY MORTGAGES.

12 (a) IN GENERAL.—Section 251(c) of the National
 13 Housing Act is amended to read as follows:

14 “(c) The aggregate number of mortgages and loans in-
 15 sured under this section in any fiscal year may not exceed 20
 16 percent of the aggregate number of mortgages and loans in-
 17 sured by the Secretary under this title during the preceding
 18 fiscal year.”.

19 (b) CONFORMING AMENDMENTS.—

20 (1) Section 245(c) of the National Housing Act is
 21 amended in the last sentence by striking “, section
 22 251,”.

23 (2) Section 252(g) of the National Housing Act is
 24 amended—

- 1 (A) by striking the first comma and inserting
 2 “and”; and
 3 (B) by striking “, and section 251”.

4 **SEC. 411. PENALTIES FOR EQUITY SKIMMING.**

5 (a) **PURCHASE OF DWELLING SUBJECT TO LOAN IN**
 6 **DEFAULT.**—Section 912 of the Housing and Urban Devel-
 7 opment Act of 1970 is amended—

8 (1) in paragraph (1), by inserting “(including con-
 9 dominiums and cooperatives)” after “dwellings”;

10 (2) in paragraph (2), by inserting after “due” the
 11 following: “, regardless of whether the purchaser is ob-
 12 ligated on the loan”; and

13 (3) in the matter following paragraph (3)—

14 (A) by striking “\$5,000” and inserting
 15 “\$250,000”; and

16 (B) by striking “three” and inserting “5”.

17 (b) **USE OF FUNDS DERIVED FROM PROPERTY SUB-**
 18 **JECT TO LOAN IN DEFAULT.**—Title II of the National
 19 Housing Act is amended by adding at the end the following
 20 new section:

21 **“EQUITY SKIMMING PENALTY**

22 **“SEC. 254. Whoever, as an owner, agent, or manager,**
 23 **or who is otherwise in custody, control, or possession of prop-**
 24 **erty that is security for a mortgage note that is insured, ac-**
 25 **quired, or held by the Secretary pursuant to section 203,**
 26 **207, 213, 220, 221(d)(3), 221(d)(4), 223(f), 231, 232, 234,**

1 236, 238(c), 241, 242, 244, 608, or 810, or title XI, or is
 2 made pursuant to section 202 of the Housing Act of 1959,
 3 willfully uses or authorizes the use of any part of the rents,
 4 assets, proceeds, income or other funds derived from property
 5 covered by such mortgage note during a period when the
 6 mortgage note is in default or the project is in a nonsurplus
 7 cash position as defined by the regulatory agreement cover-
 8 ing such property, for any purpose other than to meet actual
 9 or necessary expenses that include expenses approved by the
 10 Secretary if such approval is required under the terms of the
 11 regulatory agreement, shall be fined not more than \$250,000
 12 or imprisoned not more than 5 years, or both.”.

13 “(c) CONFORMING AMENDMENTS.—Section 239 of the
 14 National Housing Act is amended—

15 (1) by striking “INSURED” in the section heading;

16 (2) by striking “(a)” after “SEC. 239.”; and

17 (3) by striking subsection (b).

18 SEC. 412. AUTHORITY FOR SECRETARY TO IMPOSE CIVIL
 19 MONEY PENALTIES ON MORTGAGEES.

20 (a) IN GENERAL.—Title II of the National Housing Act
 21 (as amended by section 411 of this Act) is further amended
 22 by adding at the end the following new section:

23 “AUTHORITY FOR SECRETARY TO IMPOSE CIVIL MONEY
 24 PENALTIES ON MORTGAGEES

25 “SEC. 255. (a) IN GENERAL.—

1 “(1) Whenever a mortgagee approved under sec-
2 tion 203 violates any of the requirements of this Act,
3 as set forth in subsection (b), the Secretary may impose
4 a civil money penalty on the mortgagee in accordance
5 with the provisions of this section. This penalty shall
6 be in addition to any available civil remedy or any
7 other available civil or criminal penalty, and may be
8 imposed whether or not the Secretary imposes other
9 administrative sanctions.

10 “(2) The amount of the penalty may not exceed
11 \$1,000 for each violation, as determined by the Secre-
12 tary, except that the maximum penalty for all viola-
13 tions by a particular mortgagee during any 1-year
14 period shall not exceed \$1,000,000. In the case of a
15 continuing violation, as determined by the Secretary,
16 each day shall constitute a separate violation.

17 “(b) VIOLATIONS FOR WHICH PENALTY MAY BE IM-
18 POSED.—The Secretary may impose a civil money penalty
19 under subsection (a) for any of the following violations by a
20 mortgagee:

21 “(1) Unless expressly permitted by statute or reg-
22 ulation, transfer of a mortgage insured under section
23 203 to a mortgagee not approved by the Secretary.

24 “(2) Failure of a nonsupervised mortgagee, as de-
25 fined by the Secretary—

1 “(A) to segregate all escrow funds received
2 from a mortgagor for ground rents, taxes, assess-
3 ments, and insurance premiums; or

4 “(B) to deposit such funds in a special ac-
5 count with a financial institution whose accounts
6 are insured by the Federal Deposit Insurance
7 Corporation, the Federal Savings and Loan Insur-
8 ance Corporation, or the National Credit Union
9 Administration.

10 “(3) Use of escrow funds for any purpose other
11 than the purpose for which such funds are received.

12 “(4) Submission to the Secretary of information
13 that the mortgagee knew, or should have known, was
14 false, in connection with any mortgage insured under
15 section 203.

16 “(5) Hiring or retaining in employment an officer,
17 director, principal, or employee with knowledge that,
18 at the time of hire or while in employment (as appro-
19 priate), the person was under suspension or debarment
20 by the Secretary.

21 “(6) Submission of a false certification to the
22 Secretary.

23 “(7) Failure to comply with an amendment, certi-
24 fication, or condition of approval set forth—

1 “(A) on the application of a mortgagee for
2 approval by the Secretary; or

3 “(B) on the notification by a mortgagee to
4 the Secretary concerning establishment of a
5 branch office.

6 “(8) Violation of any contract with the Secretary
7 under section 203, any statute or implementing regula-
8 tion that applies to the programs administered by the
9 Secretary under section 203, or any other written in-
10 struction or communication that is issued under this
11 Act and mailed, sent, or delivered to a mortgagee
12 under section 203.

13 “(c) AGENCY PROCEDURES.—

14 “(1) The Secretary shall establish standards and
15 procedures governing the imposition of civil money
16 penalties under subsection (a). The standards and
17 procedures—

18 “(A) shall provide for the imposition of a
19 penalty only after the mortgagee has been given
20 an opportunity for a hearing on the record by a
21 hearing officer authorized by the Secretary to
22 conduct hearings; and

23 “(B) may provide for—

1 “(i) use of an administrative entity to
2 make the determination to impose a penalty,
3 subject to a hearing if requested; and

4 “(ii) review of any determination or
5 order, or interlocutory ruling, arising from a
6 hearing.

7 “(2) In determining the amount of a penalty
8 under subsection (a), the Secretary shall take into ac-
9 count the gravity of the offense, degree of culpability,
10 any history of prior offenses, ability to pay, size of the
11 business entity, effect upon ability to continue in busi-
12 ness, and such other factors as the Secretary may de-
13 termine in regulations to be appropriate.

14 “(3) The determination of the Secretary or order
15 of the Secretary imposing a penalty under subsection
16 (a) shall not be subject to review, except as provided in
17 subsection (d).

18 “(d) JUDICIAL REVIEW OF AGENCY DETERMINA-
19 TION.—After exhausting all administrative remedies estab-
20 lished by the Secretary under subsection (c)(1), a mortgagee
21 against whom the Secretary has imposed a civil money pen-
22 alty under subsection (a) may obtain judicial review of the
23 determination or order of the Secretary in the appropriate
24 United States district court, as provided in chapter 7 of title
25 5, United States Code.

1 “(e) ACTION BY SECRETARY TO COLLECT PENAL-
2 TY.—If any mortgagee fails to comply with the determina-
3 tion or order of the Secretary imposing a civil money penalty
4 under subsection (a), after the determination or order is no
5 longer subject to review as provided by subsections (c)(1) and
6 (d), the Secretary may, acting through the General Counsel
7 of the Department of Housing and Urban Development,
8 bring an action in an appropriate United States district court
9 to obtain a monetary judgment against the mortgagee and
10 such other relief as may be available. The monetary judg-
11 ment may, in the discretion of the court, include the attor-
12 neys fees and other expenses incurred by the Secretary in
13 connection with the action. In an action under this subsec-
14 tion, the validity and appropriateness of the determination or
15 order of the Secretary imposing the penalty shall not be sub-
16 ject to review.

17 “(f) SETTLEMENT BY SECRETARY.—The Secretary
18 may compromise, modify, or remit any civil money penalty
19 that may be, or has been, imposed under this section.

20 “(g) REGULATIONS.—The Secretary shall issue such
21 regulations as may be necessary to carry out this section.

22 “(h) DEPOSIT OF PENALTIES IN INSURANCE
23 FUNDS.—All civil money penalties collected under this sec-
24 tion shall be deposited in the appropriate insurance fund or

1 funds established in this Act, and shall be available for use to
2 the extent approved in appropriation Acts.”.

3 (b) **APPLICABILITY.**—The amendment made by subsec-
4 tion (a) shall apply only with respect to—

5 (1) violations that occur on or after the effective
6 date of the regulations issued to carry out such amend-
7 ment; or

8 (2) in the case of a continuing violation (as deter-
9 mined by the Secretary of Housing and Urban Devel-
10 opment), any portion of the violation that occurs on or
11 after such effective date.

12 **SEC. 413. HOME EQUITY CONVERSION MORTGAGE INSURANCE**
13 **DEMONSTRATION.**

14 Title II of the National Housing Act (as amended by
15 sections 411 and 412 of this Act) is further amended by
16 adding at the end the following new section:

17 **“DEMONSTRATION PROGRAM OF INSURANCE OF HOME**
18 **EQUITY CONVERSION MORTGAGES FOR ELDERLY**
19 **HOMEOWNERS**

20 **“SEC. 256. (a) PURPOSE.**—The purpose of this section
21 is to authorize the Secretary to carry out a demonstration
22 program of mortgage insurance designed—

23 **“(1) to meet the special needs of elderly home-**
24 **owners by reducing the effect of the economic hardship**
25 **caused by the increasing costs of meeting health, hous-**
26 **ing, and subsistence needs at a time of reduced income,**

1 through the insurance of home equity conversion mort-
 2 gages to permit the conversion of a portion of accumu-
 3 lated home equity into liquid assets;

4 “(2) to encourage and increase the involvement of
 5 mortgagees and participants in the secondary mortgage
 6 market in the making and servicing of home equity
 7 conversion mortgages for elderly homeowners; and

8 “(3) to require the evaluation of data to
 9 determine—

10 “(A) the extent of the need and demand
 11 among elderly homeowners for insured and unin-
 12 sured home equity conversion mortgages;

13 “(B) the types of home equity conversion
 14 mortgages that best serve the needs and interests
 15 of elderly homeowners, the Federal Government,
 16 and lenders; and

17 “(C) the appropriate scope and nature of par-
 18 ticipation by the Secretary in connection with
 19 home equity conversion mortgages for elderly
 20 homeowners.

21 “(b) DEFINITIONS.—For purposes of this section:

22 “(1) The term ‘elderly homeowner’ and ‘home-
 23 owner’ mean any homeowner who is, or whose spouse
 24 is, at least 65 years of age or such higher age as the
 25 Secretary may prescribe.

1 “(2) The terms ‘first mortgage’, ‘mortgage’,
2 ‘mortgagee’, ‘mortgagor’, and ‘State’ have the mean-
3 ings given such terms in section 201.

4 “(3) The term ‘home equity conversion mortgage’
5 means a loan secured by a first lien on a property upon
6 which there is located a dwelling designed principally
7 for a 1-family residence that—

8 “(A) provides for monthly payments to the
9 homeowner based upon accumulated equity;

10 “(B) may provide for a fixed or variable term
11 or for future sharing, between the lender and the
12 homeowner, of the equity or appreciation in the
13 value of the dwelling;

14 “(C) provides that the loan shall become due
15 on a specified date after disbursement of the full
16 principal amount, or when a specified event (such
17 as the sale of the dwelling or the death of the
18 homeowner) occurs;

19 “(D) provides that the monthly payments re-
20 quired in the mortgage instrument shall be made
21 directly by the lender to the homeowner;

22 “(E) provides that prepayment in whole or in
23 part may be made without penalty at any time
24 during the term of the loan; and

1 “(F) provides that the interest rate shall be
2 fixed, as agreed upon by the mortgagor and the
3 mortgagee at the origination of the mortgage.

4 “(c) INSURANCE AUTHORITY.—The Secretary may,
5 upon application by a mortgagee, insure any home equity
6 conversion mortgage eligible for insurance under this section
7 and, upon such terms and conditions as the Secretary may
8 prescribe, make commitments for the insurance of such mort-
9 gages prior to the date of their execution or disbursement to
10 the extent that the Secretary determines such mortgages—

11 “(1) have promise for improving the financial situ-
12 ation or otherwise meeting the special needs of elderly
13 homeowners;

14 “(2) will include appropriate safeguards for mort-
15 gagors to offset the special risks of such mortgages;

16 “(3) have a potential for acceptance in the private
17 mortgage market; and

18 “(4) have a potential for purchase by a secondary
19 market institution.

20 “(d) ELIGIBILITY REQUIREMENTS.—To be eligible for
21 insurance under this section, a mortgage shall—

22 “(1) have been made to, and be held by, a mort-
23 gagee approved by the Secretary as responsible and
24 able to service the mortgage properly;

25 “(2) have been executed by a mortgagor who—

1 “(A) qualifies as an elderly homeowner;

2 “(B) has received adequate counseling by a
3 third party (other than the lender) as provided in
4 subsection (g); and

5 “(C) meets any additional requirements pre-
6 scribed by the Secretary;

7 “(3) be secured by a dwelling that is designed
8 principally for a 1-family residence and is occupied by
9 the mortgagor;

10 “(4) involve a principal obligation (including such
11 initial service charges, appraisal, inspections, and other
12 fees as the Secretary shall approve, and all interest to
13 be deferred and added to the principal) that does not,
14 on the date the mortgage is accepted for insurance,
15 exceed whichever of the following is less:

16 “(A) 125 percent of the maximum dollar
17 amount established by the Secretary under section
18 203(b)(2) for a 1-family residence; or

19 “(B) 90 percent of the appraised value of the
20 property;

21 “(5) provide for a fixed interest rate, as agreed
22 upon by the mortgagor and the mortgagee;

23 “(6) contain provisions for full satisfaction of the
24 obligation satisfactory to the Secretary;

1 “(7) provide that, in the event of any foreclosure
2 on the mortgage, the homeowner shall not be liable for
3 any difference between the net amount of the remain-
4 ing indebtedness of the homeowner under the mortgage
5 and the amount recovered by the mortgagee from—

6 “(A) the foreclosure sale; or

7 “(B) the insurance benefits paid pursuant to
8 subsection (e); and

9 “(8) contain such terms and provisions with re-
10 spect to insurance, repairs, alterations, payment of
11 taxes, default reserve, delinquency charges, foreclosure
12 proceedings, anticipation of maturity, additional and
13 secondary liens, and other matters as the Secretary
14 may prescribe.

15 “(e) APPLICABILITY OF SECTION 204.—

16 “(1) Each mortgagee of a mortgage insured under
17 this section shall be eligible to receive the benefits of
18 insurance as provided in section 204(a) with respect to
19 such mortgage, except that in the case of a mortgage
20 providing for shared appreciation—

21 “(A) the insurance benefits shall not include
22 the share of the mortgagee of the net appreciated
23 value; and

24 “(B) the term ‘original principal obligation of
25 the mortgage’ as used in section 204 shall not in-

1 clude the share of the mortgagee of the net appre-
2 ciated value.

3 “(2) The provisions of subsections (b) through (k)
4 of section 204 shall be applicable to mortgages insured
5 under this section, except that—

6 “(A) all references in such subsections to the
7 Mutual Mortgage Insurance Fund or the Fund
8 shall be construed to refer to the General Insur-
9 ance Fund; and

10 “(B) all references in such subsections to sec-
11 tion 203 shall be construed to refer to this
12 section.

13 “(f) DISCLOSURES BY MORTGAGEE.—The Secretary
14 shall require each mortgagee of a mortgage insured under
15 this section to make available to the homeowner—

16 “(1) at the time of the loan application, a written
17 list of the names and addresses of third-party counsel-
18 ors who are approved by the Secretary as responsible
19 and able to provide the counseling required in subsec-
20 tion (g); and

21 “(2) on an annual basis (but not later than Janu-
22 ary 31 of each year), a statement summarizing the
23 total principal amount paid made to the homeowner
24 under the loan secured by the mortgage, the total
25 amount of deferred interest added to the principal, and

1 the outstanding loan balance at the end of the preced-
2 ing year.

3 “(g) COUNSELING SERVICES FOR MORTGAGORS.—The
4 Secretary shall require the third-party counseling required in
5 subsection (d)(2)(B)—

6 “(1) to be provided by counselors (other than the
7 lender) who are approved by the Secretary as responsi-
8 ble and able to provide counseling to elderly homeown-
9 ers; and

10 “(2) to include—

11 “(A) informing the elderly homeowner of op-
12 tions other than a home equity conversion mort-
13 gage that are available to the homeowner, includ-
14 ing other housing, social service, health, and fi-
15 nancial options;

16 “(B) informing the elderly homeowner of
17 other home equity conversion options that are or
18 may become available to the homeowner, such as
19 sale-leaseback financing, deferred payment loans,
20 and property tax deferral;

21 “(C) informing the elderly homeowner of all
22 financial implications of entering into a home
23 equity conversion mortgage, including any tax
24 consequences, any effect on the eligibility of the
25 homeowner for assistance under Federal and

1 State programs, and any effect on the amount of
2 such assistance;

3 “(D) informing the elderly homeowner of all
4 the effects that entering into a home equity con-
5 version mortgage will have on the estate and
6 heirs of the homeowner;

7 “(E) providing any other information that the
8 Secretary may require; and

9 “(F) providing the elderly homeowner with a
10 written summary, acknowledged in writing by the
11 mortgagor, of all of the information required in
12 subparagraphs (A) through (E).

13 “(h) LIMITATION ON INSURANCE AUTHORITY.—No
14 mortgage may be insured under this section after September
15 30, 1988, except pursuant to a commitment to insure issued
16 on or before such date. The total number of mortgages in-
17 sured under this section may not exceed 1,000.

18 “(i) ADMINISTRATIVE AUTHORITY.—The Secretary
19 may—

20 “(1) enter into such contracts and agreements
21 with Federal, State, and local agencies, public and pri-
22 vate entities, and such other persons as the Secretary
23 determines to be necessary or desirable to carry out
24 the purposes of this section; and

1 “(2) make such investigations and studies of data,
2 and publish and distribute such reports, as the Secre-
3 tary determines to be appropriate.

4 “(j) **PREEMPTION OF STATE LAW.**—Mortgages insured
5 and authorized under this section, and applicable regulations
6 that contain or set forth provisions pertaining to sharing ap-
7 preciation, increases in the outstanding balance after execu-
8 tion of the mortgage (including adding deferred interest to
9 principal), disbursement of mortgage proceeds over an ex-
10 tended term, or setting of a due date in relation to the earli-
11 est of a specified event, shall not be subject to any constitu-
12 tion, statute, court decree, common law, rule, or public policy
13 of a State that—

14 “(1) limits or prohibits sharing appreciation, in-
15 creases in the outstanding balance after execution of
16 the mortgage, or disbursement of mortgage proceeds
17 over an extended time; or

18 “(2) requires that the term of the mortgage be
19 fixed.

20 “(k) **PROTECTION OF HOMEOWNER IN EVENT OF DE-**
21 **FAULT BY LENDER.**—

22 “(1) Notwithstanding any other provision of law,
23 and in order to further the purposes of the demonstra-
24 tion program authorized in this section, the Secretary
25 shall take any action necessary—

1 “(A) to provide any mortgagor under this
2 section with funds to which the mortgager is enti-
3 tled under the insured mortgage or ancillary con-
4 tracts but that the mortgagor has not received be-
5 cause of the default of the party responsible for
6 payment; and

7 “(B) to obtain repayment of disbursements
8 provided under subparagraph (A) from any source.

9 “(2) Actions under paragraph (1) may include—

10 “(A) disbursing funds to the mortgagor from
11 the General Insurance Fund;

12 “(B) accepting an assignment of the insured
13 mortgage notwithstanding that the mortgagor is
14 not in default under its terms, and calculating the
15 amount and making the payment of the insurance
16 claim on such assigned mortgage;

17 “(C) requiring a subordinate mortgage from
18 the mortgagor at any time in order to secure re-
19 payments of any funds advanced or to be ad-
20 vanced to the mortgagor;

21 “(D) requiring a subrogation to the Secretary
22 of the rights of any parties to the transaction
23 against any defaulting parties;

24 “(E) imposing premium charges; and

1 “(F) preempting any State or local law that
2 may prohibit or limit any of the actions described
3 in subparagraphs (A) through (E).

4 “(I) SAFEGUARD TO PREVENT DISPLACEMENT OF
5 HOMEOWNER AT END OF MORTGAGE TERM.—The Secre-
6 tary may not insure a home equity conversion mortgage
7 under this section unless such mortgage provides that, if the
8 homeowner chooses to remain in the dwelling beyond the
9 term of the mortgage, title to the dwelling shall be conveyed
10 to the Secretary. At the option of the former homeowner, the
11 Secretary shall allow the dwelling to be exclusively occupied
12 by the former homeowner until the former homeowner volun-
13 tarily chooses to move. The Secretary may require the
14 former homeowner to pay rent to the Secretary in an amount
15 computed in accordance with section 3(a) of the United
16 States Housing Act of 1937. For purposes of this subsection,
17 the term ‘homeowner’ includes the spouse of a homeowner.

18 “(m) REPORT TO CONGRESS.—The Secretary shall
19 evaluate the program authorized in this section and, not later
20 than April 1, 1989, submit to the Congress a report setting
21 forth the results of such evaluation. Such report shall—

22 “(1) describe the types of mortgages appropriate
23 for inclusion in such program;

- 1 “(2) describe any restrictions in State or local law
2 that require preemption under subsection (j) or (k) in
3 order to continue such program;
- 4 “(3) describe any changes in the insurance pro-
5 grams under this title, or in other Federal regulatory
6 provisions, determined to be appropriate;
- 7 “(4) describe any risk created by such program to
8 mortgagors or the insurance programs under this title,
9 and whether the risk is adequately covered by the pre-
10 miums under the insurance programs;
- 11 “(5) evaluate whether such program has improved
12 the financial situation or otherwise met the special
13 needs of participating elderly homeowners;
- 14 “(6) evaluate whether such program has included
15 appropriate safeguards for mortgagors to offset the spe-
16 cial risks of such mortgages;
- 17 “(7) evaluate whether home equity conversion
18 mortgages have a potential for acceptance in the pri-
19 vate market; and
- 20 “(8) evaluate whether such program has increased
21 secondary mortgage market activity with respect to
22 home equity conversion mortgages.”.

1 SEC. 414. ASSURANCE OF ADEQUATE PROCESSING OF APPLI-
 2 CATIONS FOR LOAN AND MORTGAGE INSUR-
 3 ANCE.

4 Title V of the National Housing Act is amended by
 5 adding at the end the following new section:

6 "ASSURANCE OF ADEQUATE PROCESSING OF
 7 APPLICATIONS FOR LOAN AND MORTGAGE INSURANCE

8 "SEC. 533. In order to ensure the adequate processing
 9 of applications for insurance of loans and mortgages under
 10 this Act, the Secretary shall maintain not less than one office
 11 in each State to carry out the provisions of this Act."

12 SEC. 415. CLOSING OF ANY OFFICE PROHIBITED BEFORE
 13 COMPLETION OF CERTAIN STUDIES.

14 Title V of the National Housing Act (as amended by
 15 section 414 of this Act) is further amended by adding at the
 16 end the following new section:

17 "CLOSING OF ANY OFFICE PROHIBITED BEFORE
 18 COMPLETION OF CERTAIN STUDIES

19 "SEC. 534. The Secretary may not implement any pro-
 20 posal or determination to close any office maintained by the
 21 Secretary in any State (on or after October 1, 1985) to carry
 22 out the provisions of this Act until at least 30 days after the
 23 completion of any investigation, study, or review by any
 24 other Federal agency or department or any committee of
 25 either House of the Congress of the proposal or determina-
 26 tion of the Secretary to close the office."

1 **SEC. 416. STUDY OF VOLUNTARY STANDARDS FOR MODULAR**
2 **HOMES.**

3 (a) **IN GENERAL.**—In order to facilitate the construc-
4 tion of less costly housing, the Secretary of Housing and
5 Urban Development shall prepare and submit to the Con-
6 gress not later than 6 months after the date of the enactment
7 of this Act a report describing feasible alternative systems for
8 implementing a voluntary preemptive national code for modu-
9 lar housing, including the method for inspecting the struc-
10 tures to ensure compliance with the recommended code. Such
11 code may be a national model code and shall provide for the
12 development of modular housing standards for construction,
13 design, and performance that ensure quality, durability, and
14 safety and are in accordance with life-cycle cost-effective
15 energy conservation standards established by the Secretary of
16 Housing and Urban Development and designed to ensure the
17 lowest total construction and operating costs over the esti-
18 mated life of such housing.

19 (b) **DEFINITION.**—For purposes of this section, the term
20 “modular housing” means factory-built single-family housing
21 (including panelized housing) not subject to the requirements
22 of the National Manufactured Housing Construction and
23 Safety Standards Act of 1974.

1 **SEC. 417. REPEAL OF REQUIREMENT TO PUBLISH PROTOTYPE**
 2 **HOUSING COSTS FOR 1- TO 4-FAMILY DWELL-**
 3 **ING UNITS.**

4 The Housing and Community Development Act of 1977
 5 is amended by striking out section 904.

6 **SEC. 418. DOUBLE DAMAGES REMEDY FOR UNAUTHORIZED**
 7 **USE OF MULTIFAMILY HOUSING PROJECT**
 8 **ASSETS AND INCOME.**

9 **(a) ACTION TO RECOVER ASSETS OR INCOME.—**

10 (1) The Secretary of Housing and Urban Develop-
 11 ment (hereafter referred to in this section as the “Sec-
 12 retary”) may request the Attorney General to bring an
 13 action in a United States district court to recover any
 14 assets or income used by any person in violation of (A)
 15 a regulatory agreement that applies to a multifamily
 16 project whose mortgage is insured or held by the Sec-
 17 retary under title II of the National Housing Act; or
 18 (B) any applicable regulation. For purposes of this sec-
 19 tion, a use of assets or income in violation of the regu-
 20 latory agreement or any applicable regulation shall in-
 21 clude any use for which the documentation in the
 22 books and accounts does not establish that the use was
 23 made for a reasonable operating expense or necessary
 24 repair of the project and has not been maintained in
 25 accordance with the requirements of the Secretary and
 26 in reasonable condition for proper audit.

1 (2) For purposes of a mortgage insured or held by
2 the Secretary under title II of the National Housing
3 Act, the term "any person" shall mean any person or
4 entity which owns a project, as identified in the regula-
5 tory agreement, including but not limited to any stock-
6 holder holding 25 percent or more interest of a corpo-
7 ration that owns the project; any beneficial owner
8 under any business or trust; any officer, director, or
9 partner of an entity owning the project; and any heir,
10 assignee, successor in interest, or agent of any owner.

11 (b) INITIATION OF PROCEEDINGS AND TEMPORARY
12 RELIEF.—The Attorney General, upon request of the Secre-
13 tary, shall have the exclusive authority to authorize the initi-
14 ation of proceedings under this section. Pending final resolu-
15 tion of any action under this section, the court may grant
16 appropriate temporary or preliminary relief, including re-
17 straining orders, injunctions, and acceptance of satisfactory
18 performance bonds, to protect the interests of the Secretary
19 and to prevent use of assets or income in violation of the
20 regulatory agreement and any applicable regulation and to
21 prevent loss of value of the realty and personalty involved.

22 (c) AMOUNT RECOVERABLE.—In any judgment favor-
23 able to the United States entered under this section, the At-
24 torney General may recover double the value of the assets
25 and income of the project that the court determines to have

1 been used in violation of the regulatory agreement or any
 2 applicable regulation, plus all costs relating to the action,
 3 including but not limited to reasonable attorney and auditing
 4 fees. Notwithstanding any other provision of law, the Secre-
 5 tary may apply the recovery, or any portion of the recovery,
 6 to the project or to the applicable insurance fund under the
 7 National Housing Act.

8 (d) **TIME LIMITATION.**—Notwithstanding any other
 9 statute of limitations, the Secretary may request the Attor-
 10 ney General to bring an action under this section at any time
 11 up to and including 6 years after the latest date that the
 12 Secretary discovers any use of project assets and income in
 13 violation of the regulatory agreement or any applicable
 14 regulation.

15 (e) **CONTINUED AVAILABILITY OF OTHER REME-**
 16 **DIES.**—The remedy provided by this section is in addition to
 17 any other remedies available to the Secretary or the United
 18 States.

19 **SEC. 419. MORTGAGE INSURANCE TECHNICAL AMENDMENTS.**

20 (a) **ADMINISTRATIVE PROVISIONS.**—The second sen-
 21 tence of section 1 of the National Housing Act is amended by
 22 striking the last comma.

23 (b) **APPLICABILITY.**—Section 9 of the National Hous-
 24 ing Act is amended by inserting the following section
 25 heading:

1 "APPLICABILITY".

2 (c) MISCELLANEOUS HOUSING INSURANCE.—

3 (1) Section 223(a)(7) of the National Housing Act
4 is amended—

5 (A) in the first proviso, by striking "a rate
6 not in excess of the maximum rate prescribed
7 under the applicable section or title of this Act"
8 and inserting the following: "such rate as may be
9 agreed upon by the mortgagor and the mortga-
10 gee";

11 (B) in the second proviso, by striking "matu-
12 rity, a principal obligation, and an interest rate"
13 and inserting the following: "maturity and a prin-
14 cipal obligation"; and

15 (C) inserting before the semicolon at the end
16 the following: ", and shall bear interest at such
17 rate as may be agreed upon by the mortgagor and
18 the mortgagee"; and

19 (2) in subsection (d), by striking "(exclusive of
20 premium charges for insurance) at not to exceed the
21 per centum per annum currently permitted for mort-
22 gages insured under the section under which it is to be
23 insured" and inserting the following: "bear interest at
24 such rate as may be agreed upon by the mortgagor and
25 the mortgagee".

1 (d) MORTGAGE INSURANCE FOR NURSING HOMES, IN-
 2 TERMEDIATE CARE FACILITIES, AND BOARD AND CARE
 3 HOMES.—Section 232(i)(2)(B) of the National Housing Act
 4 is amended to read as follows:

5 “(B) bear interest at such rate as may be agreed
 6 upon by the mortgagor and the mortgagee;”.

7 (e) CO-INSURANCE.—Section 244(h) of the National
 8 Housing Act is amended by striking “coinsurance” each
 9 place it appears and inserting “co-insurance”.

10 (f) INSURANCE ON HAWAIIAN HOME LANDS.—Section
 11 247(a)(2) of the National Housing Act is amended by striking
 12 “Mortgagor” and inserting “mortgagor”.

13 (g) DEFENSE HOUSING FOR IMPACTED AREAS.—The
 14 first sentence of section 810(h) of the National Housing Act
 15 is amended—

16 (1) by striking “(exclusive of premium charges for
 17 insurance) at not to exceed the rate applicable to mort-
 18 gages insured under section 207” and inserting the fol-
 19 lowing: “at such rate as may be agreed upon by the
 20 mortgagor and the mortgagee”; and

21 (2) by striking “not to exceed the rate applicable
 22 to mortgages insured under section 203” and inserting
 23 the following: “such rate as may be agreed upon by
 24 the mortgagor and the mortgagee”.

**Subtitle B—Secondary Mortgage
Market Programs**

**SEC. 441. LIMITATIONS ON CERTAIN SECONDARY MORTGAGE
MARKET FEES.**

(a) FEDERAL NATIONAL MORTGAGE ASSOCIATION.—

Section 304 of the Federal National Mortgage Association Charter Act is amended by adding at the end the following new subsection:

“(f) Except for fees paid pursuant to section 309(g), no fee or charge may be assessed or collected by the United States (including any executive department, agency, or independent establishment of the United States) on or with regard to the purchase, acquisition, sale, pledge, issuance, guarantee, or redemption of any mortgage, asset, obligation, trust certificate of beneficial interest, or other security by the corporation. No provision of this subsection shall affect the purchase of any obligation by the Secretary of the Treasury pursuant to subsection (c).”.

(b) GOVERNMENT NATIONAL MORTGAGE ASSOCIATION.—Section 306(g) of Federal National Mortgage Association Charter Act is amended by adding at the end the following new paragraph:

“(3)(A) No fee or charge in excess of 6 basis points may be assessed or collected by the United States (including any executive department, agency, or independent establishment

1 of the United States) on or with regard to any guaranty of
2 the timely payment of principal or interest on securities or
3 notes based on or backed by mortgages that are secured by
4 1- to 4-family dwellings and (i) insured by the Federal Hous-
5 ing Administration under title II of the National Housing
6 Act; or (ii) insured or guaranteed under the Serviceman's Re-
7 adjustment Act of 1944, chapter 37 of title 38, United States
8 Code, or title V of the Housing Act of 1949.

9 “(B) The fees charged for the guaranty of securities or
10 on notes based on or backed by mortgages not referred to in
11 subparagraph (A), as authorized by other provisions of law,
12 shall be set by the Association at a level not more than nec-
13 essary to create reserves sufficient to meet anticipated claims
14 based upon actuarial analysis, and for no other purpose.

15 “(C) Fees or charges for the issuance of commitments or
16 miscellaneous administrative fees of the Association shall
17 remain at the level set for such fees or charges as of Septem-
18 ber 1, 1985, except that such fees or charges may be in-
19 creased if reasonably related to the cost of administering the
20 program, and for no other purpose.

21 “(D) Not less than 90 days before increasing any fee or
22 charge under subparagraph (B) or (C), the Secretary shall
23 submit to the Congress a certification that such increase is
24 solely for the purpose specified in such subparagraph.”.

1 (c) FEDERAL HOME LOAN MORTGAGE CORPORA-
2 TION.—Section 306 of the Federal Home Loan Mortgage
3 Corporation Act is amended by adding at the end the follow-
4 ing new subsection:

5 “(i) Except for fees paid pursuant to section 303(c) or
6 306(c), no fee or charge may be assessed or collected by the
7 United States (including any executive department, agency,
8 or independent establishment of the United States) on or with
9 regard to the purchase, acquisition, sale, pledge, issuance,
10 guarantee, or redemption of any mortgage, asset, obligation,
11 or other security by the Corporation. No provision of this
12 subsection shall affect the purchase of any obligation by any
13 Federal home loan bank pursuant to section 303(a).”.

14 SEC. 442. FNMA CUMULATIVE VOTING.

15 Section 303(a) of the Federal National Mortgage Asso-
16 ciation Charter Act is amended by inserting after the first
17 sentence the following new sentence: “The corporation may
18 eliminate such rights of cumulative voting by a resolution
19 adopted by its board of directors and approved by the holders
20 of a majority of the shares of common stock voting in person
21 or by proxy at the annual meeting, or other special meeting,
22 at which such resolution is considered.”.

1 **SEC. 443. EXTENSION OF AUTHORITY TO PURCHASE SECOND**
 2 **MORTGAGES ON SINGLE-FAMILY PROPERTIES.**

3 (a) **FEDERAL NATIONAL MORTGAGE ASSOCIATION.—**

4 Section 302(b)(5)(A)(i) of the Federal National Mortgage As-
 5 sociation Charter Act is amended by striking “until October
 6 1, 1987” and inserting “through September 30, 1990”.

7 (b) **FEDERAL HOME LOAN MORTGAGE CORPORA-**
 8 **TION.—**Section 305(a)(4)(A)(i) of the Federal Home Loan
 9 Mortgage Corporation Act is amended by striking “until Oc-
 10 tober 1, 1987” and inserting “through September 30, 1990”.

11 **TITLE V—COMMUNITY DEVELOP-**
 12 **MENT AND MISCELLANEOUS**
 13 **PROGRAMS**

14 **Subtitle A—Community and Neighbor-**
 15 **hood Development and Preserva-**
 16 **tion**

17 **SEC. 501. CITY AND COUNTY CLASSIFICATIONS.**

18 (a) **METROPOLITAN CITY.—**Section 102(a)(4) of the
 19 Housing and Community Development Act of 1974 is
 20 amended—

21 (1) in the second sentence, by striking “September
 22 30, 1987” and inserting “September 30, 1988”; and

23 (2) by adding at the end the following new sen-
 24 tence: “Any city classified as a metropolitan city pur-
 25 suant to the first or second sentence of this paragraph,
 26 and that no longer qualifies as a metropolitan city

1 under such first or second sentence in a fiscal year be-
2 ginning after fiscal year 1988, shall retain its classifi-
3 cation as a metropolitan city for such fiscal year and
4 the succeeding fiscal year, except that in such succeed-
5 ing fiscal year (A) the amount of the grant to such city
6 shall be 50 percent of the amount calculated under sec-
7 tion 106(b); and (B) the remaining 50 percent shall be
8 added to the amount allocated under section 106(d) to
9 the State in which the city is located and the city shall
10 be eligible in such succeeding fiscal year to receive a
11 distribution from the State allocation under section
12 106(d) as increased by this sentence.”.

13 (b) URBAN COUNTY.—Section 102(a)(6) of the Housing
14 and Community Development Act of 1974 is amended—

15 (1) by inserting before the period at the end of the
16 first sentence the following: “, or (D) has a current
17 population in excess of 177,000 (exclusive of all metro-
18 politan cities therein), with more than 50 percent of
19 the housing units of the area unsewered and with the
20 unsewered housing units contributing to the degrada-
21 tion of an aquifer that has been declared a sole source
22 aquifer by the Environmental Protection Agency”;

23 (2) in the second sentence, by striking “September
24 30, 1987” and inserting “September 30, 1988”; and

1 (3) by adding at the end the following new sen-
2 tence: "Any county classified as an urban county pur-
3 suant to the first or second sentence of this paragraph,
4 and that no longer qualifies as an urban county under
5 such first or second sentence in a fiscal year beginning
6 after fiscal year 1988, shall retain its classification as
7 an urban county for such fiscal year and the succeeding
8 fiscal year, except that in such succeeding fiscal year
9 (A) the amount of the grant to such an urban county
10 shall be 50 percent of the amount calculated under sec-
11 tion 106(b); and (B) the remaining 50 percent shall be
12 added to the amount allocated under section 106(d) to
13 the State in which the urban county is located and the
14 urban county shall be eligible in such succeeding fiscal
15 year to receive a distribution from the State allocation
16 under section 106(d) as increased by this sentence."

17 (c) **TERMINATION OF EXEMPTION.**—Upon the date of
18 the enactment of this Act, there shall not be applicable for
19 any fiscal year the provision that—

20 (1) provides for the qualification of a city as a
21 metropolitan city under section 102(a)(4) of the Hous-
22 ing and Community Development Act of 1974;

23 (2) was included in the conference report and joint
24 explanatory statement of the committee on conference
25 to accompany H.R. 5313 (House Report 99-977) as

1 filed in the House of Representatives in October 7,
2 1986; and

3 (3) was made applicable pursuant to section
4 101(g) of Public Law 99-500 or 99-591.

5 **SEC. 502. COMMUNITY DEVELOPMENT AUTHORIZATIONS.**

6 (a) **COMMUNITY DEVELOPMENT BLOCK GRANTS.—**

7 The second sentence of section 103 of the Housing and Com-
8 munity Development Act of 1974 is amended to reads as
9 follows: "There are authorized to be appropriated for pur-
10 poses of assistance under sections 106 and 107
11 \$3,400,000,000 for fiscal year 1988."

12 (b) **DISCRETIONARY FUND.—**

13 (1) The first sentence of section 107(a) of the
14 Housing and Community Development Act of 1974 is
15 amended to read as follows: "Of the total amount pro-
16 vided in appropriation Acts under section 103 for fiscal
17 year 1988, \$60,000,000 may be set aside in a special
18 discretionary fund for grants under subsection (b)."

19 (2) Section 107 of the Housing and Community
20 Development Act of 1974 is amended—

21 (A) by redesignating subsections (c) and (d)
22 as subsections (d) and (e), respectively; and

23 (B) by inserting after subsection (b) the fol-
24 lowing new subsection:

1 “(c) Of the amount set aside for use under subsection (b)
2 in any fiscal year, the Secretary shall, to the extent approved
3 in appropriation Acts, make available not less than
4 \$2,500,000 in the form of grants to institutions of higher
5 education, either directly or through areawide planning orga-
6 nizations or States, for the purpose of continuing programs in
7 effect during fiscal year 1984 for providing assistance to eco-
8 nomically disadvantaged and minority students who partici-
9 pate in community development work study programs and
10 are enrolled in full-time graduate or undergraduate programs
11 in community and economic development, community plan-
12 ning, or community management. Such grants may be made
13 only to institutions of higher education receiving grants for
14 such purpose under subsection (b) for fiscal year 1984, and
15 may only be provided to such institutions in the same manner
16 as such grants are provided during such fiscal year.”.

17 (c) URBAN DEVELOPMENT ACTION GRANTS.—Section
18 119(a) of the Housing and Community Development Act of
19 1974 is amended by striking the second and last sentences
20 and inserting the following new sentences: “There are au-
21 thorized to be appropriated to carry out this section
22 \$300,000,000 for fiscal year 1988. Any amount appropriated
23 under this subsection shall remain available until expended.”.

1 **SEC. 503. STATEMENT OF ACTIVITIES AND REVIEW.**

2 Section 104(a)(1) of the Housing and Community De-
3 velopment Act of 1974 is amended by striking out the last
4 sentence.

5 **SEC. 504. HOUSING ASSISTANCE PLANS.**

6 Section 104(c)(1)(A) of the Housing and Community
7 Development Act of 1974 is amended—

8 (1) in the second parenthetical phrase, by insert-
9 ing “homeless persons,” after “assistance,”; and

10 (2) in the last parenthetical phrase, by inserting
11 “and homeless persons” after “persons”.

12 **SEC. 505. COMMUNITY DEVELOPMENT BLOCK GRANT PUBLIC**
13 **SERVICE ACTIVITIES.**

14 Section 105(a)(8) of the Housing and Community De-
15 velopment Act of 1974 is amended—

16 (1) by inserting “(A)” after “paragraph unless”;
17 and

18 (2) by inserting before the semicolon at the end
19 the following: “; or (B) the Secretary authorizes such
20 unit of general local government to use more than 15
21 percent (but not more than the highest percentage per-
22 mitted to be used under subparagraph (A) by another
23 unit of general local government located in the same
24 metropolitan area) of the assistance received under this
25 title for such activities following (i) a determination by
26 such unit of general local government that the activi-

1 ties carried out using the amounts authorized under
 2 this subparagraph are appropriate to support proposed
 3 community development activities; and (ii) submission
 4 to the Secretary of a request for such authorization by
 5 such unit of general local government”.

6 **SEC. 506. LIMITED NEW CONSTRUCTION OF HOUSING UNDER**
 7 **COMMUNITY DEVELOPMENT BLOCK GRANT**
 8 **PROGRAM.**

9 Section 105(a) of the Housing and Community Develop-
 10 ment Act of 1974 is amended—

11 (1) by striking out “and” at the end of paragraph
 12 (17);

13 (2) by striking out the period at the end of para-
 14 graph (18) and inserting in lieu thereof “; and”; and

15 (3) by adding at the end thereof the following new
 16 paragraph:

17 “(19) provision of assistance to facilitate new con-
 18 struction or substantial reconstruction in instances in
 19 which persons of low and moderate income own and
 20 occupy a home that the grantee determines is not suit-
 21 able for rehabilitation.”.

1 SEC. 507. STATE CERTIFICATIONS FOR RECEIVING COMMUNI-
 2 TY DEVELOPMENT BLOCK GRANTS FOR NON-
 3 ENTITLEMENT AREAS.

4 Section 106(d)(2) of the Housing and Community De-
 5 velopment Act of 1974 is amended—

6 (1) in subparagraph (C), by striking out “the Gov-
 7 ernor must certify that the State” and inserting in lieu
 8 thereof “the State must certify that it”; and

9 (2) in subparagraph (D), by striking out “the Gov-
 10 ernor of each State” and inserting in lieu thereof “the
 11 State”.

12 SEC. 508. COMMUNITY DEVELOPMENT BLOCK GRANT LOAN
 13 GUARANTEES.

14 (a) LIMITATION ON COMMITMENTS.—The last sen-
 15 tence of section 108(a) of the Housing and Community De-
 16 velopment Act of 1974 is amended—

17 (1) by striking “fiscal year 1984” and inserting
 18 “fiscal year 1988”; and

19 (2) by striking “\$225,000,000” and inserting
 20 “\$150,000,000”.

21 (b) PROHIBITION ON FEES.—Section 108 of the Hous-
 22 ing and Community Development Act of 1974 is amended by
 23 adding at the end the following new subsection:

24 “(m) No fee or charge may be assessed or collected by
 25 the Secretary or any other Federal agency on or with respect
 26 to a guarantee made by the Secretary under this section.”.

1 **SEC. 509. URBAN DEVELOPMENT ACTION GRANT SELECTION**
 2 **CRITERIA.**

3 (a) **PROJECT QUALITY CRITERIA.**—Section 119(d)(1)
 4 of the Housing and Community Development Act of 1974 is
 5 amended—

6 (1) by inserting a dash before “(A)”;

7 (2) by indenting subparagraphs (A) and (B) in the
 8 same manner as subparagraphs (C), (D), and (E), as in-
 9 serted by this subsection;

10 (3) in subparagraph (A), by striking “as the pri-
 11 mary criterion,”;

12 (4) by striking “and” at the end of subparagraph
 13 (B); and

14 (5) by striking subparagraph (C) and inserting the
 15 following new subparagraphs:

16 “(C) the following other criteria:

17 “(i) the extent to which the grant will stimu-
 18 late economic recovery by leveraging private
 19 investment;

20 “(ii) the number of permanent jobs to be cre-
 21 ated and their relation to the amount of grant
 22 funds requested;

23 “(iii) the proportion of permanent jobs acces-
 24 sible to lower income persons and minorities, in-
 25 cluding persons who are unemployed;

1 “(iv) the extent to which the project will
2 retain jobs that will be lost without the provision
3 of a grant under this section;

4 “(v) the extent to which the project will re-
5 lieve the most pressing employment or residential
6 needs of the applicant by—

7 “(I) reemploying workers in a skill that
8 has recently suffered a sharp increase in un-
9 employment locally;

10 “(II) retraining recently unemployed
11 residents in new skills;

12 “(III) providing training to increase the
13 local pool of skilled labor; or

14 “(IV) producing decent housing for low-
15 and moderate-income persons in cases where
16 such housing is in severe shortage in the
17 area of the applicant;

18 “(vi) the impact of the proposed activities on
19 the fiscal base of the city or urban county and its
20 relation to the amount of grant funds requested;

21 “(vii) the extent to which State or local gov-
22 ernment funding or special economic incentives
23 have been committed; and

24 “(viii) the extent to which the project will
25 have a substantial impact on physical and eco-

1 nomic development of the city or urban county,
 2 the proposed activities are likely to be accom-
 3 plished in a timely fashion with the grant amount
 4 available, and the city or urban county has dem-
 5 onstrated performance in housing and community
 6 development programs;

7 “(D) the failure of the city or urban county to re-
 8 ceive a preliminary grant approval under this section—

9 “(i) on or after December 21, 1983; or

10 “(ii) during the 12-month period preceding
 11 the date on which applications are required to be
 12 submitted for the grant competition involved; and

13 “(E) whether the project will utilize one or more
 14 small business concerns owned and controlled by so-
 15 cially and economically disadvantaged individuals (as
 16 such term is defined in section 8(d) of the Small Busi-
 17 ness Act (15 U.S.C. 637(d)).

18 An application shall be considered to produce housing
 19 for low- and moderate-income persons under subpara-
 20 graph (C)(v)(IV) only if such application proposes
 21 that—

22 “(i) not less than 51 percent of all funds
 23 available for the project shall be used for dwelling
 24 units and related facilities; and

1 “(ii) not less than 30 percent of all funds
 2 used for dwelling units and related facilities shall
 3 be used for dwelling units to be occupied by per-
 4 sons of low and moderate income, or not less than
 5 20 percent of all dwelling units made available to
 6 occupancy using such funds shall be occupied by
 7 persons of low and moderate income, whichever
 8 results in the occupancy of more dwelling units by
 9 persons of low and moderate income.”.

10 (b) SELECTION LIMITATIONS AND CRITERIA
 11 WEIGHT.—Section 119(d) of the Housing and Community
 12 Development Act of 1974 is amended by adding at the end
 13 the following new paragraphs:

14 “(3) The Secretary shall award points to each applica-
 15 tion as follows:

16 “(A) not more than 35 points on the basis of the
 17 factors referred to in paragraph (1)(A);

18 “(B) not more than 35 points on the basis of the
 19 factors referred to in paragraph (1)(B);

20 “(C) not more than 33 points on the basis of the
 21 factors referred to in paragraph (1)(C);

22 “(D)(i) 2 additional points on the basis of the
 23 factor referred to in paragraph (1)(D)(i); or

24 “(ii) 1 additional point on the basis of the factor
 25 referred to in paragraph (1)(D)(ii); and

1 “(E) not less than 1 additional point on the basis
2 of the factor referred to in paragraph (1)(E).

3 “(4) The Secretary shall distribute grant funds under
4 this section so that to the extent practicable during each
5 funding cycle—

6 “(A) 65 percent of the funds is first made avail-
7 able utilizing all of the criteria set forth in paragraph
8 (1); and

9 “(B) 35 percent of the funds is then made avail-
10 able solely on the basis of the factors referred to in
11 subparagraphs (C), (D), and (E) of paragraph (1).

12 “(5)(A) For each fiscal year, the Secretary shall hold—

13 “(i) 3 competitions for grants under paragraph (1)
14 for cities not described in the first sentence of subsec-
15 tion (i) (relating to small cities) and urban counties; and

16 “(ii) 3 competitions for cities described in the first
17 sentence of subsection (i) (relating to small cities).

18 “(B) Each competition for grants described in any
19 clause of subparagraph (A) shall be for an amount equal to
20 the sum of—

21 “(i) approximately $\frac{1}{3}$ of the funds available for
22 such grants for the fiscal year;

23 “(ii) any funds available for such grants in any
24 previous competition that are not awarded; and

1 “(iii) any funds available for such grants in any
2 previous competition that are recaptured.

3 “(6) In determining the score to be awarded each of the
4 criteria under subparagraphs (A) through (E) of paragraph (1)
5 for applications for grants for urban counties, the Secretary
6 shall compare such applications only with other applications
7 for grants for urban counties.”.

8 (c) **USE OF REPAID GRANT FUNDS.**—Section 119(f) of
9 the Housing and Community Development Act of 1974 is
10 amended by adding at the end the following: “In any case in
11 which the project proposes the repayment to the applicant of
12 the grant funds, such funds shall be made available by the
13 applicant for economic development activities that are or
14 would be eligible activities under this section or section 104.
15 The applicant shall annually provide the Secretary with a
16 statement of the projected receipt and use of repaid grant
17 funds during the next year together with a report acceptable
18 to the Secretary on the use of such funds during the most
19 recent preceding full fiscal year of the applicant.”.

20 (d) **NONDISCRIMINATION.**—Section 119(r) of the Hous-
21 ing and Community Development Act of 1974 is amended to
22 read as follows:

23 “(r) In utilizing the discretion of the Secretary when
24 providing assistance and applying selection criteria under this
25 section, the Secretary may not discriminate against applica-

1 tions on the basis of (1) the type of activity involved, whether
2 such activity is primarily housing, industrial, or commercial;
3 or (2) the type of applicant, whether such applicant is a city
4 or urban county.”.

5 (e) REPORTS OF COMPTROLLER GENERAL.—

6 (1)(A) Not later than the expiration of the 1-year
7 period following the date of the enactment of this Act
8 and every 8 years thereafter, the Comptroller General
9 of the United States shall prepare and submit to the
10 Congress a comprehensive report evaluating the eligi-
11 bility standards and selection criteria applicable under
12 section 119 of the Housing and Community Develop-
13 ment Act of 1974.

14 (B) Such report shall evaluate in detail the stand-
15 ards and criteria specified in such section that measure
16 the level or comparative degree of economic distress of
17 cities and urban counties and the effect of the grants
18 awarded on the basis of such standards and criteria
19 on stimulating the maximum economic development
20 activity.

21 (C) Such report shall also evaluate in detail the
22 extent to which the economic and social data utilized
23 by the Secretary in awarding grants under such section
24 is current and accurate, and shall compare the data
25 used by the Secretary with other available data. The

1 Comptroller General shall make recommendations to
 2 the Congress on whether or not other data should be
 3 collected by the Federal Government in order to fairly
 4 and accurately distribute grants under such section
 5 based on the level or comparative degree of economic
 6 distress. The Comptroller General shall also make rec-
 7 ommendations on whether or not existing data should
 8 be collected more frequently in order to ensure that
 9 timely data is used to evaluate grant applications under
 10 such section.

11 (2) Not later than the expiration of the 3-month
 12 period following the date of the final competition for
 13 grants for fiscal year 1987 under section 119 of the
 14 Housing and Community Development Act of 1974,
 15 the Comptroller General of the United States shall pre-
 16 pare and submit to the Congress a comprehensive
 17 report describing the effect of the amendments made by
 18 this section on—

19 (A) the targeting of grant funds to cities and
 20 urban counties having the highest level or degree
 21 of economic distress;

22 (B) the distribution of grant funds among re-
 23 gions of the United States;

24 (C) the number and types of projects receiv-
 25 ing grants;

1 (D) the per capita funding levels for each
2 city, urban county, or identifiable community de-
3 scribed in subsection (p) of such section 119, re-
4 ceiving assistance under such section 119; and

5 (E) the stimulation of the maximum econom-
6 ic development activity.

7 (f) REGULATIONS.—The Secretary of Housing and
8 Urban Development shall issue such regulations as may be
9 necessary to carry out the amendments made by this section.
10 Such regulations shall be published for comment in the Fed-
11 eral Register not later than 60 days after the date of the
12 enactment of this Act.

13 (g) APPLICABILITY.—The amendments made by this
14 section shall be applicable to the making of urban develop-
15 ment action grants that have not received the preliminary
16 approval of the Secretary of Housing and Urban Develop-
17 ment before the date on which final regulations issued by the
18 Secretary under subsection (f) become effective.

19 SEC. 510. PROHIBITION ON USE OF URBAN DEVELOPMENT
20 ACTION GRANTS FOR BUSINESS RELOCATIONS.

21 (a) IN GENERAL.—Section 119(h) of the Housing and
22 Community Development Act of 1974 is amended—

23 (1) by inserting after the subsection designation
24 the following: “(1) SPECULATIVE PROJECTS.—”;

1 (2) by adding at the end of paragraph (1), as so
2 redesignated, the following new sentence: "The provi-
3 sions of this paragraph shall apply only to projects that
4 do not have identified intended occupants."; and

5 (3) by adding at the end the following new
6 paragraphs:

7 “(2) PROJECTS WITH IDENTIFIED INTENDED OCCU-
8 PANTS.—No assistance may be provided or utilized under
9 this section for any project with identified intended occupants
10 that is likely to facilitate—

11 “(A) a relocation of any operation of an industrial
12 or commercial plant or facility or other business estab-
13 lishment—

14 “(i) from any city, urban county, or identifica-
15 ble community described in subsection (p), that is
16 eligible for assistance under this section; and

17 “(ii) to the city, urban county, or identifiable
18 community described in subsection (p), in which
19 the project is located; or

20 “(B) an expansion of any such operation that re-
21 sults in a reduction of any such operation in any city,
22 county, or community described in subparagraph (A)(i).

23 “(3) SIGNIFICANT AND ADVERSE EFFECT.—The re-
24 strictions established in paragraph (2) shall not apply if the
25 Secretary determines that the relocation or expansion does

1 not significantly and adversely affect the employment or eco-
2 nomic base of the city, county, or community from which the
3 relocation or expansion occurs.

4 “(4) **PROJECTS INCREASING MARKET SHARE OF NON-**
5 **DOMESTIC CORPORATION.**—No assistance may be provided
6 or utilized under this section for any project that the Secre-
7 tary determines will be used to expand the market share of a
8 nondomestic business entity in a manner that decreases the
9 market share or operations of a domestic business entity.

10 “(5) **DEFINITIONS.**—(A) For purposes of this subsec-
11 tion, the term ‘operation’ includes any plant, equipment, fa-
12 cility, position, employment opportunity, production capacity,
13 or product line.

14 “(B) For purposes of this subsection, the term ‘domestic
15 business entity’ means any business entity not described in
16 subparagraph (C).

17 “(C) For purposes of this subsection, the term ‘nondo-
18 mestic business entity’ means any business entity—

19 “(i) more than 50 percent of the ownership of
20 which is held by persons who are not citizens or per-
21 manent residents of the United States;

22 “(ii) that is controlled by persons who are not citi-
23 zens or permanent residents of the United States; or

24 “(iii) that is a subsidiary of, or is controlled by,
25 another business entity described in clause (i) or (ii).

1 “(6) REGULATIONS.—Not later than 60 days after the
2 date of the enactment of the Housing and Community Devel-
3 opment Act of 1987, the Secretary shall issue such regula-
4 tions as may be necessary to carry out the provisions of this
5 subsection. Such regulations shall include specific criteria to
6 be used by the Secretary in determining whether there is a
7 significant and adverse effect under paragraph (3).”.

8 (b) APPLICABILITY.—The amendments made by this
9 section shall be applicable to urban development action
10 grants that have not received the preliminary approval of the
11 Secretary of Housing and Urban Development before the
12 date of the enactment of this Act.

13 SEC. 511. URBAN HOMESTEADING.

14 (a) CONVEYANCES OF PROPERTY BY STATE AND
15 LOCAL GOVERNMENTS FOR CONSIDERATION.—Section 810
16 of the Housing and Community Development Act of 1974 is
17 amended—

18 (1) in subsection (b)(1), by inserting after “consid-
19 eration” the following: “in the case of a lower income
20 family or individual, or for such consideration (if any)
21 as may be agreed upon by the entity and the family or
22 individual in the case of a family or individual that is
23 not a lower income family or individual”;

24 (2) by striking out “and” at the end of subsection
25 (b)(3)(C);

1 (3) by inserting "and" after the semicolon at the
2 end of subsection (b)(3)(D);

3 (4) by adding at the end of subsection (b)(3) the
4 following new subparagraph:

5 “(E) pay the agreed upon consideration (if
6 any) for the property, in the case of a family or
7 individual that is not a lower income family or
8 individual;”;

9 (5) in subsection (b)(5), by inserting after “consid-
10 eration” the following: “in the case of a lower income
11 family or individual, or for such consideration (if any)
12 as may be agreed upon by the entity and the family or
13 individual in the case of a family or individual that is
14 not a lower income family or individual;”;

15 (6) in subsection (b)(7)—

16 (A) by striking out “and” at the end of sub-
17 paragraph (B);

18 (B) by striking out the period at the end of
19 subparagraph (C) and inserting in lieu thereof a
20 semicolon; and

21 (C) by adding at the end thereof the follow-
22 ing new subparagraphs:

23 “(D) prohibits the unit of general local gov-
24 ernment, State, or public agency designated by a
25 unit of general local government or a State, from

1 charging consideration for a property, if such
2 charge results in excluding any prospective recipi-
3 ent qualified for the special priority under sub-
4 paragraph (A); and

5 “(E) prohibits the conveyance of any proper-
6 ty under this section to a family or individual that
7 is not a lower income family or individual, if there
8 is a qualified applicant who is a lower income
9 family or individual.”;

10 (7) by adding at the end of subsection (b) the fol-
11 lowing new sentences: “Any unit of general local gov-
12 ernment, State, or public agency designated by a unit
13 of general local government or a State, that receives
14 consideration in connection with the conveyance of a
15 property to an individual or family under this section
16 shall remit to the Secretary any amount received, in
17 such manner and at such time as the Secretary may
18 prescribe. The Secretary shall deposit any amount re-
19 mitted under the preceding sentence in a revolving
20 fund, which shall be available to the Secretary, to the
21 extent approved in appropriation Acts, for purposes of
22 carrying out this section.”; and

23 (8) in subsection (h)(3), by striking out “subsection
24 and subsection (i)” and inserting in lieu thereof
25 “section”.

1 (b) **INCREASED ASSISTANCE FOR COMMUNITIES**
2 **HAVING HIGH RATES OF FORECLOSURES.**—Section 810 of
3 the Housing and Community Development Act of 1974 is
4 amended—

5 (1) by redesignating subsection (k) as subsection
6 (l); and

7 (2) by inserting after subsection (j) the following
8 new subsection:

9 “(k)(1) Any unit of general local government in which
10 the rate of foreclosure on mortgages on single-family dwell-
11 ings insured under title II of the National Housing Act ex-
12 ceeds by more than 20 percent such rate of foreclosure in
13 such unit of general local government during the preceding
14 year may apply to the Secretary for an increase in its assist-
15 ance under this section.

16 “(2) Any unit of general local government applying for
17 an increase in assistance under this subsection shall provide
18 the Secretary with documentation describing the rate of fore-
19 closure referred to in paragraph (1), the administrative capac-
20 ities of the homestead program of such unit of general local
21 government, and the likely effect of the use of additional as-
22 sistance under this subsection on such rate of foreclosure.

23 “(3) The Secretary may not approve an increase in as-
24 sistance under this subsection that exceeds an amount equal
25 to 50 percent of the assistance requested by the unit of gen-

1 eral local government under this section in its original
2 application.”.

3 (c) AUTHORIZATION OF APPROPRIATIONS.—The first
4 sentence of section 810(l) of the Housing and Community
5 Development Act of 1974, as so redesignated by subsection
6 (b), is amended to read as follows: “To reimburse the housing
7 loan funds for properties transferred pursuant to this section,
8 and to carry out subsections (c), (g), (h), and (i), there are
9 authorized to be appropriated \$15,000,000 for fiscal year
10 1988.”.

11 SEC. 512. REHABILITATION LOANS.

12 (a) EXTENSION OF LOAN AUTHORITY.—Section 312(h)
13 of the Housing Act of 1964 is amended by striking “Septem-
14 ber 30, 1987” and inserting “September 30, 1988”.

15 (b) PROHIBITION OF CERTAIN FEES.—Section 312(g)
16 of the Housing Act of 1964 is amended by adding at the end
17 the following new sentences: “No risk premium or loan fee
18 may be assessed or collected by or for the Secretary or any
19 other Federal agency on or with respect to a loan made
20 under this section. Any person who pays any such premium
21 or fee before the date of the enactment of the Housing and
22 Community Development Act of 1987 shall be reimbursed
23 for the amount paid.”.

1 **SEC. 513. NEIGHBORHOOD REINVESTMENT CORPORATION.**

2 Section 608(a) of the Neighborhood Reinvestment Cor-
3 poration Act is amended to read as follows:

4 “(a) There are authorized to be appropriated to the cor-
5 poration to carry out this title \$19,000,000 for fiscal year
6 1988.”.

7 **SEC. 514. NEIGHBORHOOD DEVELOPMENT DEMONSTRATION**
8 **PROGRAM.**

9 Section 123(g) of the Housing and Urban-Rural Recov-
10 ery Act of 1983 is amended to read as follows:

11 “(g) There are authorized to be appropriated to carry
12 out this section \$10,000,000 for fiscal year 1988.”.

13 **SEC. 515. PARK CENTRAL NEW COMMUNITY PROJECT.**

14 (a) **HOUSING ASSISTANCE.**—Section 213 of the Hous-
15 ing and Community Development Act of 1974 is amended by
16 adding at the end the following new subsection:

17 “(e) The Secretary shall enter into an annual contribu-
18 tions contract for a term of 180 months to obligate sufficient
19 funds to provide assistance payments pursuant to section
20 8(b)(1) of the United States Housing Act of 1937 on behalf of
21 500 lower income families from budget authority made avail-
22 able for fiscal year 1988, so long as such families occupy
23 properties in the Park Central New Community Project or in
24 adjacent areas that are recognized by the unit of general local
25 government in which such Project is located as being includ-
26 ed within the Park Central New Town In Town Project. If a

1 lower income family receiving assistance payments pursuant
 2 to this subsection ceases to qualify for assistance payments
 3 pursuant to the provisions of section 8 of such Act or of this
 4 subsection during the 180-month term of the annual contribu-
 5 tions contract, assistance payments shall be made on behalf
 6 of another lower income family who occupies a unit identified
 7 in the previous sentence.”.

8 (b) COMMUNITY DEVELOPMENT ASSISTANCE.—Sec-
 9 tion 107(a) of the Housing and Community Development Act
 10 of 1974 is amended by adding at the end the following new
 11 sentence: “Of the amount set aside for grants under subsec-
 12 tion (b) for fiscal year 1988, \$5,000,000 shall be made avail-
 13 able by the Secretary for purposes of grants under subsection
 14 (b)(1) for the Park Central New Community Project.”.

15 SEC. 516. LIMITATION ON RECAPTURE OF CERTAIN RESERVA-
 16 TIONS OF ASSISTANCE.

17 After the reservation of assistance for any person or
 18 governmental entity under section 312 of the Housing Act of
 19 1964 or section 810 of the Housing and Community Devel-
 20 opment Act of 1974, the Secretary of Housing and Urban
 21 Development shall not recapture any of the assistance includ-
 22 ed in such reservation due to the failure of such person or
 23 governmental entity to utilize, obligate, or expend such as-
 24 sistance during the fiscal year in which such amount is re-
 25 ceived or during the succeeding fiscal year.

1 **SEC. 517. COMMUNITY DEVELOPMENT TECHNICAL AMEND-**
 2 **MENTS.**

3 Section 123(e)(3) of the Housing and Urban-Rural Re-
 4 covery Act of 1983 is amended by striking "Act" and insert-
 5 ing "section".

6 **Subtitle B—Flood and Crime**
 7 **Insurance Programs**

8 **SEC. 541. EXTENSION OF FLOOD INSURANCE PROGRAMS.**

9 (a) **GENERAL AUTHORITY.**—Section 1319 of the Na-
 10 tional Flood Insurance Act of 1968 is amended by striking
 11 "September 30, 1987" and inserting "September 30, 1988".

12 (b) **EMERGENCY IMPLEMENTATION.**—Section 1336(a)
 13 of the National Flood Insurance Act of 1968 is amended by
 14 striking "September 30, 1987" and inserting "Septem-
 15 ber 30, 1988".

16 (c) **ESTABLISHMENT OF FLOOD-RISK ZONES.**—Sec-
 17 tion 1360(a)(2) of the National Flood Insurance Act of 1968
 18 is amended by striking "September 30, 1987" and inserting
 19 "September 30, 1988".

20 (d) **LIMITATION ON PREMIUMS.**—The premium rates
 21 charged for flood insurance under any program established
 22 pursuant to the National Flood Insurance Act of 1968 may
 23 not be increased during the period beginning on the date of
 24 the enactment of this Act and ending on September 30,
 25 1988, by more than a prorated annual rate of 10 percent.

1 **SEC. 542. EXTENSION OF CRIME INSURANCE PROGRAMS.**

2 (a) **GENERAL AUTHORITY.**—Section 1201(b)(1) of the
3 National Housing Act is amended by striking “Septem-
4 ber 30, 1987” in the matter preceding subparagraph (A) and
5 inserting “September 30, 1988”.

6 (b) **CONTINUATION OF EXISTING CONTRACTS.**—Sec-
7 tion 1201(b)(1)(A) of the National Housing Act is amended
8 by striking “September 30, 1986” and inserting “Septem-
9 ber 30, 1989”.

10 (c) **LIMITATION ON PREMIUMS.**—The premium rates
11 charged for crime insurance under any program established
12 pursuant to part C of title XII of the National Housing Act
13 may not be increased during the period beginning on the date
14 of the enactment of this Act and ending on September 30,
15 1988, by more than a prorated annual rate of 10 percent.

16 **SEC. 543. STUDIES UNDER NATIONAL FLOOD INSURANCE**
17 **PROGRAM.**

18 Section 1376(c) of the National Flood Insurance Act of
19 1968 is amended to read as follows:

20 “(c) There are authorized to be appropriated for studies
21 under this title \$38,000,000 for fiscal year 1988. Any
22 amount appropriated under this subsection shall remain avail-
23 able until expended.”.

1 **SEC. 544. FLOOD AND CRIME INSURANCE TECHNICAL AMEND-**
 2 **MENTS.**

3 (a) **CRIME INSURANCE PROGRAM AUTHORITY.**—Sec-
 4 tion 1201(b) of the National Housing Act is amended—

5 (1) by striking paragraphs (2) and (3);

6 (2) by striking “(b)(1)” and inserting “(b)”; and

7 (3) by redesignating subparagraphs (A) through
 8 (C) as paragraphs (1) through (3), respectively.

9 (b) **REINSURANCE AGREEMENTS.**—Section 1222(c) of
 10 the National Housing Act is amended by striking “section
 11 3679(a) of the Revised Statutes of the United States (31
 12 U.S.C. 665(a)),” and inserting “section 1341(a) of title 31,
 13 United States Code,”.

14 (c) **NATIONAL INSURANCE DEVELOPMENT FUND.**—
 15 Section 1243(d) of the National Housing Act is amended by
 16 striking “by law (sections 102, 103, and 104 of the Govern-
 17 ment Corporation Control Act (31 U.S.C. 847–849))” and
 18 inserting “by sections 9103 and 9104 of title 31, United
 19 States Code,”.

20 (d) **NATIONAL FLOOD INSURANCE FUND.**—Section
 21 1310(e) of the National Flood Insurance Act of 1968 is
 22 amended by inserting a comma after “Code”.

23 (e) **FEMA TREASURY BORROWINGS.**—The third sen-
 24 tence of section 15(e) of the Federal Flood Insurance Act of
 25 1956 is amended by inserting a comma after “Code”.

1 **Subtitle C—Miscellaneous Programs**

2 **SEC. 561. FAIR HOUSING INITIATIVES PROGRAM.**

3 (a) **IN GENERAL.**—The Secretary of Housing and
 4 Urban Development (in this section referred to as the “Sec-
 5 retary”) may make grants to, or (to the extent of amounts
 6 provided in appropriation Acts) enter into contracts or coop-
 7 erative agreements with, State or local governments or their
 8 agencies, public or private nonprofit organizations or institu-
 9 tions, or other public or private entities that are formulating
 10 or carrying out programs to prevent or eliminate discrimina-
 11 tory housing practices, to develop, implement, carry out, or
 12 coordinate—

13 (1) programs or activities designed to obtain en-
 14 forcement of the rights granted by title VIII of the Act
 15 of April 11, 1968 (commonly referred to as the Civil
 16 Rights Act of 1968), or by State or local laws that
 17 provide rights and remedies for alleged discriminatory
 18 housing practices that are substantially equivalent to
 19 the rights and remedies provided in such title VIII,
 20 through such appropriate judicial or administrative pro-
 21 ceedings (including informal methods of conference,
 22 conciliation, and persuasion) as are available therefor;
 23 and

1 (2) education and outreach programs designed to
2 inform the public concerning rights and obligations
3 under the laws referred to in paragraph (1).

4 (b) PROGRAM ADMINISTRATION.—

5 (1) Not less than 30 days before providing a grant
6 or entering into any contract or cooperative agreement
7 to carry out activities authorized by this section, the
8 Secretary shall submit notification of such proposed
9 grant, contract, or cooperative agreement (including a
10 description of the geographical distribution of such con-
11 tracts) to the Committee on Banking, Housing, and
12 Urban Affairs of the Senate and the Committee on
13 Banking, Finance and Urban Affairs of the House of
14 Representatives.

15 (2) The Secretary shall provide to the Committee
16 on Banking, Housing, and Urban Affairs of the Senate
17 and the Committee on Banking, Finance and Urban
18 Affairs of the House of Representatives a quarterly
19 report that summarizes the activities funded under this
20 section and describes the geographical distribution of
21 grants, contracts, or cooperative agreements funded
22 under this section.

23 (c) REGULATIONS.—

1 (1) The Secretary shall issue such regulations as
2 may be necessary to carry out the provisions of this
3 section.

4 (2) The Secretary shall issue regulations govern-
5 ing the use of funds under this section for testing con-
6 ducted by private organizations. Such regulations shall
7 contain measures determined by the Secretary to be
8 necessary to ensure that all such testing is objective,
9 reliable, and controlled. Such regulations shall guaran-
10 tee the credibility and probative value of testing evi-
11 dence and preclude, to the extent possible without in-
12 fringing on rights and remedies provided by Federal
13 fair housing laws, the misuse of the funds provided
14 under this section. No such testing shall be funded
15 under this section unless preceded by an allegation of a
16 discriminatory housing practice made by a person not
17 employed by the organization conducting the test. No
18 provision of this section or regulation issued under this
19 section (A) shall have any application to testing other
20 than testing conducted with funds provided under this
21 section; or (B) may be construed to limit or otherwise
22 restrict the use of facts secured through testing not
23 funded under this section in any legal proceeding under
24 Federal fair housing laws.

1 (3) Such regulations shall include provisions gov-
2 erning applications for assistance under this section,
3 and shall require each such application to contain—

4 (A) a description of the assisted activities
5 proposed to be undertaken by the applicant, to-
6 gether with the estimated costs and schedule for
7 completion of such activities;

8 (B) a description of the experience of the ap-
9 plicant in formulating or carrying out programs to
10 prevent or eliminate discriminatory housing
11 practices;

12 (C) available information, including studies
13 made by or available to the applicant, indicating
14 the nature and extent of discriminatory housing
15 practices occurring in the general location where
16 the applicant proposes to conduct its assisted ac-
17 tivities, and the relationship of such activities to
18 such practices;

19 (D) an estimate of such other public or pri-
20 vate resources as may be available to assist the
21 proposed activities;

22 (E) a description of proposed procedures to
23 be used by the applicant for monitoring conduct
24 and evaluating results of the proposed activities;
25 and

1 (F) any additional information required by
2 the Secretary.

3 (4) Regulations issued under this subsection shall
4 not become effective prior to the expiration of 90 days
5 after the Secretary transmits such regulations, in the
6 form such regulations are intended to be published, to
7 the Committee on Banking, Housing, and Urban
8 Affairs of the Senate and the Committee on Banking,
9 Finance and Urban Affairs of the House of
10 Representatives.

11 (5) The Secretary shall not obligate or expend any
12 amount under this section before the effective date of
13 the regulations required under this subsection.

14 (d) AUTHORIZATION OF APPROPRIATIONS.—There are
15 authorized to be appropriated to carry out the provisions of
16 this section, including any program evaluations, \$10,000,000
17 for fiscal year 1988. Any amount appropriated under this
18 section shall remain available until expended.

19 SEC. 562. COLLECTION OF CERTAIN DATA.

20 To assess the extent of compliance with Federal fair
21 housing requirements (including the requirements established
22 under title VI of Public Law 88-352 and title VIII of Public
23 Law 90-284), the Secretary of Housing and Urban Develop-
24 ment and the Secretary of Agriculture shall each collect, not
25 less than annually, data on the racial and ethnic characteris-

1 tics of persons eligible for, assisted, or otherwise benefiting
 2 under each community development, housing assistance, and
 3 mortgage and loan insurance and guarantee program admin-
 4 istered by such Secretary. Such data shall be collected on a
 5 building by building basis if the Secretary involved deter-
 6 mines such collection to be appropriate.

7 **SEC. 563. REGULATORY AUTHORITY.**

8 (a) **DEPARTMENT OF HOUSING AND URBAN DEVELOP-**
 9 **MENT.**—Section 7(o) of the Department of Housing and
 10 Urban Development Act is amended by adding at the end
 11 thereof the following new paragraphs:

12 “(7) The Secretary shall, on a quarterly basis, transmit
 13 to both Committees a summary (or, upon the request of the
 14 Chairman of either Committee, a copy) of each notice or
 15 handbook to be issued by the Secretary not less than 15 days
 16 before the date of such issuance.

17 “(8) The Secretary shall include with each rule or regu-
 18 lation, notice, or handbook required to be transmitted to the
 19 Committees under this subsection a detailed summary of all
 20 changes required by the Office of Management and Budget
 21 that prohibit, modify, postpone, or disapprove such rule or
 22 regulation, notice, or handbook in whole or part.”.

23 (b) **FARMERS HOME ADMINISTRATION.**—Section 534
 24 of the Housing Act of 1949 is amended by adding at the end
 25 thereof the following new subsections:

1 “(d) The Secretary shall, on a quarterly basis, transmit
2 to both Committees referred to in subsection (b) a summary
3 (or, upon the request of the Chairman of either Committee, a
4 copy) of each notice or handbook to be issued by the Secre-
5 tary under this title not less than 15 days before the date of
6 such issuance.

7 “(e) The Secretary shall include with each rule or regu-
8 lation, notice, or handbook required to be transmitted to the
9 Committees under this section a detailed summary of all
10 changes required by the Office of Management and Budget
11 that prohibit, modify, postpone, or disapprove such rule or
12 regulation, notice, or handbook in whole or part.”.

13 **SEC. 564. TIMELY PAYMENT OF SUBCONTRACTORS.**

14 It is the policy of the United States that each prime
15 contractor of the Department of Housing and Urban Devel-
16 opment should establish procedures to ensure the timely pay-
17 ment of amounts due pursuant to the terms of the subcon-
18 tracts of such prime contractor.

19 **SEC. 565. RESEARCH AND DEVELOPMENT.**

20 (a) **AUTHORIZATION OF APPROPRIATIONS.**—Section
21 501 of the Housing and Urban Development Act of 1970 is
22 amended by striking the second and third sentences and in-
23 serting the following: “There are authorized to be appropri-
24 ated to carry out this title \$20,000,000 for fiscal year
25 1988.”.

1 (b) **ADDITIONAL RESEARCH PROGRAMS.**—Title V of
 2 the Housing and Urban Development Act of 1970 is amend-
 3 ed by adding at the end the following new sections:

4 “**PUBLIC HOUSING ENERGY IMPROVEMENTS**

5 “**SEC. 513.** In carrying out activities under section 501,
 6 the Secretary shall develop a system that may be used by
 7 public housing agencies to monitor energy use in public hous-
 8 ing projects and to identify energy conservation improve-
 9 ments that are cost-effective (taking into consideration alter-
 10 native financing mechanisms).

11 “**LOWER COST BUILDING TECHNOLOGIES**

12 “**SEC. 514.** In carrying out activities under section 501,
 13 the Secretary shall conduct research on new building technol-
 14 ogies that are designed to lower the cost of construction of
 15 single- and multi-family housing.”.

16 **SEC. 566. HOME MORTGAGE DISCLOSURE.**

17 The Home Mortgage Disclosure Act of 1975 is amend-
 18 ed by striking section 312.

19 **SEC. 567. LEAD-BASED PAINT POISONING PREVENTION.**

20 (a) **LEAD-BASED PAINT POISONING PREVENTION PRO-**
 21 **CEDURES.**—Section 302 of the Lead-Based Paint Poisoning
 22 Prevention Act is amended—

23 (1) in clause (1) of the second sentence, by insert-
 24 ing after “exposed” the following: “, including intact
 25 lead-based paint on the interior and exterior surfaces of
 26 such housing”;

- 1 (2) by striking out the third sentence;
2 (3) by inserting “(a)” after the section designation;
3 and
4 (4) by adding at the end thereof the following new
5 subsections:

6 “(b) The Secretary shall make a periodic determination
7 of whether housing constructed during or after 1950 presents
8 hazards of lead-based paint. The Secretary shall apply the
9 procedures established under this section to housing con-
10 structed during or after 1950 if such housing presents imme-
11 diate hazards of lead-based paint.

12 “(c) The Secretary shall take such actions as may be
13 necessary to ensure that each public housing agency owning
14 or operating housing assisted under the United States Hous-
15 ing Act of 1937 complies with the procedures established by
16 the Secretary under this section.”.

17 (b) REGULATIONS.—Not later than the expiration of the
18 90-day period following the date of the enactment of this Act,
19 the Secretary of Housing and Urban Development shall issue
20 such regulations as may be necessary to carry out the amend-
21 ments made by this section.

22 **SEC. 568. COUNSELING.**

23 Section 106(a)(3) of the Housing and Urban Develop-
24 ment Act of 1968 is amended—

1 (1) by striking "fiscal year 1984" and inserting
2 "fiscal year 1988"; and

3 (2) by striking "\$3,500,000" and inserting
4 "\$6,000,000".

5 **SEC. 569. MEDIAN AREA INCOME.**

6 For purposes of calculating the median income for any
7 area that is not within a metropolitan statistical area (as es-
8 tablished by the Office of Management and Budget) for pro-
9 grams under title I of the Housing and Community Develop-
10 ment Act of 1974, the United States Housing Act of 1937,
11 the National Housing Act, or title V of the Housing Act of
12 1949, the Secretary of Housing and Urban Development or
13 the Secretary of Agriculture (as appropriate) shall use which-
14 ever of the following is higher:

15 (1) the median income of the county in which the
16 area is located; or

17 (2) the median income of the entire nonmetropoli-
18 tan area of the State.

19 **SEC. 570. REMOVAL OF MAXIMUM FEE FOR INTERSTATE**
20 **LAND SALES REGISTRATION.**

21 Section 1405(b) of the Interstate Land Sales Full Dis-
22 closure Act is amended by striking out "a fee, not in excess
23 of \$1,000" and inserting in lieu thereof "a reasonable fee".

1 SEC. 571. MISCELLANEOUS PROGRAMS TECHNICAL AMEND-
2 MENTS.

3 (a) HUD ADMINISTRATIVE PROVISIONS.—

4 (1) Section 502(a) of the Housing Act of 1948 is
5 amended by striking the fourth sentence.

6 (2) Section 502(b) of the Housing Act of 1948 is
7 amended—

8 (A) by striking “United States Housing Au-
9 thority” each place it appears and inserting “Sec-
10 retary of Housing and Urban Development”; and

11 (B) by striking “the Authority” each place it
12 appears and inserting “the Secretary of Housing
13 and Urban Development”.

14 (3) Section 502(c)(2) of the Housing Act of 1948
15 is amended by adding “and” at the end.

16 (b) ANNUAL REPORT OF SECRETARY.—Section 802 of
17 the Housing Act of 1954 is amended by inserting the follow-
18 ing section heading:

19 “ANNUAL REPORT OF SECRETARY”.

20 (c) ENERGY CONSERVATION IN NEW BUILDINGS.—
21 Section 303(11) of the Energy Conservation Standards for
22 New Buildings Act of 1976 is amended by striking “Secre-
23 tary of Housing and Urban Development” and inserting
24 “Secretary of Energy”.

25 (d) WEATHERIZATION ASSISTANCE.—Section
26 412(9)(G) of the Energy Conservation in Existing Buildings

1 Act of 1976 is amended by striking the first comma after
2 "determine".

3 (e) NATIONAL INSTITUTE OF BUILDING SCIENCES.—
4 Section 809(g)(4) of the Housing and Community Develop-
5 ment Act of 1974 is amended by striking "and its" and in-
6 serting "of its".

7 **TITLE VI—NEHEMIAH HOUSING** 8 **OPPORTUNITY GRANTS**

9 **SEC. 601. STATEMENT OF PURPOSE.**

10 It is the purpose of this title—

11 (1) to encourage homeownership by families in the
12 United States who are not otherwise able to afford
13 homeownership;

14 (2) to undertake a concentrated effort to rebuild
15 the depressed areas of the cities of the United States
16 and to create sound and attractive neighborhoods; and

17 (3) to increase the employment of neighborhood
18 residents.

19 **SEC. 602. DEFINITIONS.**

20 For purposes of this title:

21 (1) The term "Fund" means the Nehemiah Hous-
22 ing Opportunity Fund established in section 609(a).

23 (2) The term "home" means any 1- to 4-family
24 dwelling. Such term includes any dwelling unit in a
25 condominium project or cooperative project consisting

1 of not more than 4 dwelling units, any town house,
2 and any manufactured home.

3 (3) The term "lower income families" has the
4 meaning given such term in section 3(b)(2) of the
5 United States Housing Act of 1937.

6 (4) The term "metropolitan statistical area"
7 means a metropolitan statistical area as established by
8 the Office of Management and Budget.

9 (5) The term "nonprofit organization" means a
10 private nonprofit corporation, or other private nonprofit
11 legal entity, that is approved by the Secretary as to fi-
12 nancial responsibility.

13 (6) The term "Secretary" means the Secretary of
14 Housing and Urban Development.

15 (7) The term "State" means each of the several
16 States, the District of Columbia, the Commonwealth of
17 Puerto Rico, the Virgin Islands, Guam, American
18 Samoa, the Northern Mariana Islands, the Trust Terri-
19 tory of the Pacific Islands, and any other territory or
20 possession of the United States.

21 (8) The term "substantial rehabilitation" means—

22 (A) rehabilitation involving costs in excess of
23 60 percent of the maximum sale price of a home
24 assisted under this title in the market area in
25 which it is located; or

1 (B) the rehabilitation of a vacant, uninhabita-
 2 ble structure.

3 (9) The term "unit of general local government"
 4 means any borough, city, county, parish, town, town-
 5 ship, village, or other general purpose political subdivi-
 6 sion of a State.

7 **SEC. 603. ASSISTANCE TO NONPROFIT ORGANIZATIONS.**

8 (a) **IN GENERAL.**—The Secretary may provide assist-
 9 ance to nonprofit organizations to carry out Nehemiah hous-
 10 ing opportunity programs in accordance with the provisions
 11 of this title. Such assistance shall be made in the form of
 12 grants.

13 (b) **APPLICATIONS.**—Applications for assistance under
 14 this title shall be made in such form, and in accordance with
 15 such procedures, as the Secretary may prescribe.

16 **SEC. 604. USE OF ASSISTANCE.**

17 (a) **IN GENERAL.**—Any nonprofit organization receiving
 18 assistance under this title shall use such assistance to provide
 19 loans to families purchasing homes constructed or substan-
 20 tially rehabilitated in accordance with a Nehemiah housing
 21 opportunity program approved under this title.

22 (b) **SPECIFIC REQUIREMENTS.**—Each loan made to a
 23 family under this section shall—

24 (1) be secured by a second mortgage held by the
 25 Secretary on the property involved;

- 1 (2) be in an amount not exceeding \$15,000;
- 2 (3) bear no interest; and
- 3 (4) be repayable to the Secretary upon the sale or
- 4 other transfer of such property.

5 **SEC. 605. PROGRAM REQUIREMENTS.**

6 (a) **IN GENERAL.**—Assistance provided under this title
 7 may be used only in connection with a Nehemiah housing
 8 opportunity program of construction or substantial rehabilita-
 9 tion of homes.

10 (b) **FAMILY NEED.**—Each family purchasing a home
 11 under this title shall—

12 (1) have a family income on the date of such pur-
 13 chase that is not more than whichever of the following
 14 is higher:

15 (A) 115 percent of the median income for a
 16 family of 4 persons in the metropolitan statistical
 17 area involved; or

18 (B) the national median income for a family
 19 of 4 persons; and

20 (2) not have owned a home during the 3-year
 21 period preceding such purchase.

22 (c) **DOWNPAYMENT.**—

23 (1) Each family purchasing a home under this title
 24 shall make a downpayment of not less than 10 percent
 25 of the sale price of such home, or of such greater

1 amount determined by the nonprofit organization in-
2 volved to be appropriate.

3 (2) Any downpayment made under this subsection
4 shall accrue interest from the date on which such
5 downpayment is made through the date of settlement,
6 at a rate not less than the passbook rate. Such interest
7 shall be paid by the nonprofit organization involved to
8 the family purchasing the home for which such down-
9 payment was made.

10 (d) LEASING PROHIBITION.—No family purchasing a
11 home under this title may lease such home.

12 SEC. 606. TERMS AND CONDITIONS OF ASSISTANCE.

13 (a) LOCAL CONSULTATION.—No proposed Nehemiah
14 housing opportunity program may be approved by the Secre-
15 tary under this title unless the nonprofit organization in-
16 volved demonstrates to the satisfaction of the Secretary
17 that—

18 (1) it has consulted with and received the support
19 of residents of the neighborhood in which such program
20 is to be located; and

21 (2) it has the approval of each unit of general
22 local government in which such program is to be
23 located.

24 (b) PROGRAM SCHEDULE.—Each nonprofit organiza-
25 tion applying for assistance under this title shall submit to the

1 Secretary an estimated schedule for completion of its pro-
 2 posed Nehemiah housing opportunity program, which sched-
 3 ule shall have been agreed to by each unit of general local
 4 government in which such program is to be located.

5 (c) **MINIMUM PARTICIPATION.**—No nonprofit organiza-
 6 tion receiving assistance under this title may commence any
 7 construction or substantial rehabilitation (except with respect
 8 to homes to be constructed or substantially rehabilitated for
 9 the purpose of display) until not less than 25 percent of the
 10 homes to be constructed or substantially rehabilitated are
 11 contracted for sale to purchasers who intend to live in such
 12 homes and the required downpayments are made.

13 (d) **FINANCIAL FEASIBILITY.**—The Secretary may not
 14 provide any assistance under this title to any nonprofit orga-
 15 nization unless such nonprofit organization demonstrates the
 16 financial feasibility of its proposed Nehemiah housing oppor-
 17 tunity program, including the availability of non-Federal
 18 public and private funds.

19 (e) **HOME QUALITY AND LOCATION.**—A Nehemiah
 20 housing opportunity program may be approved under this
 21 title only if it provides that—

22 (1) the number of homes to be constructed or sub-
 23 stantially rehabilitated under such program will not be
 24 less than whichever of the following is less:

1 (A) the greater of (i) 50 homes; or (ii) 0.25
2 percent of the number of existing dwelling units in
3 the unit of general local government that provides
4 the most assistance to such program; or

5 (B) 250 homes;

6 (2) each home constructed or substantially reha-
7 bilitated under such program will comply with—

8 (A)(i) applicable local building code stand-
9 ards; or

10 (ii) in any case in which there is not an ap-
11 plicable local building code, a nationally recog-
12 nized model building code mutually agreed upon
13 by the sponsoring nonprofit organization and the
14 Secretary; and

15 (B) the energy performance requirements es-
16 tablished under section 526 of the National Hous-
17 ing Act;

18 (3) all homes constructed or substantially rehabili-
19 tated under such program will be located in census
20 tracts, or identifiable neighborhoods within census
21 tracts, in which the median family income is not more
22 than 80 percent of the median family income of the
23 area in which such program is to be located, as such
24 median family income and area are determined for pur-

1 poses of assistance under section 8 of the United
2 States Housing Act of 1937;

3 (4) all homes constructed or substantially rehabili-
4 tated under such program will be concentrated in a
5 single neighborhood and located on contiguous parcels
6 of land, except that if the unit of general local govern-
7 ment in which the project is located certifies that such
8 land cannot be made available for a program of the
9 size required by paragraph (1), homes may be con-
10 structed in a single identifiable neighborhood if the pro-
11 gram provides for construction or substantial rehabilita-
12 tion of homes on not less than 20 percent of the lots in
13 such neighborhood; and

14 (5) sales contracts entered into under such pro-
15 gram will contain provisions requiring repayment of
16 any loan made under this title upon the sale or other
17 transfer of the home involved, unless the Secretary ap-
18 proves a transfer of such home without repayment (in
19 which case the second mortgage held by the Secretary
20 on such home shall remain in force until such loan is
21 fully repaid).

22 **SEC. 607. PROGRAM SELECTION CRITERIA.**

23 (a) **IN GENERAL.**—In selecting Nehemiah housing op-
24 portunity programs for assistance under this title from among

1 eligible programs, the Secretary shall make such selection on
2 the basis of the extent to which—

3 (1) non-Federal public or private entities will con-
4 tribute land necessary to make each program feasible;

5 (2) non-Federal public and private financial or
6 other contributions (including tax abatements, waivers
7 of fees related to development, waivers of construction,
8 development, or zoning requirements, and direct finan-
9 cial contributions) will reduce the cost of homes
10 constructed or substantially rehabilitated under each
11 program;

12 (3) each program will produce the greatest
13 number of units for the least amount of assistance pro-
14 vided under this title, taking into consideration the cost
15 differences among different market areas;

16 (4) each program is located in a neighborhood of
17 severe physical and economic blight (and, in determin-
18 ing the degree of physical blight, the Secretary shall
19 consider the condition (but not age) of the housing,
20 other buildings, and infrastructure, in the neighborhood
21 of the proposed program);

22 (5) each program uses construction methods that
23 will reduce the cost per square foot below the average
24 construction cost in the market area involved; and

1 (6) each program provides for the involvement of
2 local residents in the planning, and construction or sub-
3 stantial rehabilitation, of homes.

4 (b) **EXCEPTION.**—To the extent that non-Federal public
5 entities are prohibited by the law of any State from making
6 any form of contribution described in paragraph (1) or (2) of
7 subsection (a), the Secretary shall not consider such form of
8 contribution in evaluating such program.

9 **SEC. 608. DISTRIBUTION OF ASSISTANCE TO NONPROFIT**
10 **ORGANIZATIONS.**

11 (a) **RESERVATION OF AMOUNTS.**—Following the selec-
12 tion of any Nehemiah housing opportunity program for assist-
13 ance under this title, the Secretary shall reserve sufficient
14 amounts in the Nehemiah Housing Opportunity Fund for
15 such assistance.

16 (b) **DISTRIBUTION OF ASSISTANCE.**—Following the
17 sale of any home constructed or substantially rehabilitated
18 under a Nehemiah housing opportunity program selected for
19 assistance under this title, the Secretary shall provide to the
20 sponsoring nonprofit organization an amount equal to the
21 amount of the loan made to the family purchasing such home.
22 Such amount shall be provided not more than 30 days after
23 the sale of such home.

1 (c) **MAXIMUM ASSISTANCE.**—The assistance provided
2 to any nonprofit organization under this title may not exceed
3 \$15,000 per home.

4 **SEC. 609. NEHEMIAH HOUSING OPPORTUNITY FUND.**

5 (a) **ESTABLISHMENT.**—There hereby is established in
6 the Treasury of the United States a revolving fund, to be
7 known as the Nehemiah Housing Opportunity Fund. The
8 Fund shall be available to the Secretary, to the extent ap-
9 proved in appropriation Acts, for purposes of providing assist-
10 ance under section 603.

11 (b) **ASSETS.**—The Fund shall consist of—

12 (1) any amount appropriated under section 612;

13 (2) any amount received by the Secretary under
14 section 604(b)(4); and

15 (3) any amount received by the Secretary under
16 subsection (c).

17 (c) **ADMINISTRATION.**—Any amount in the Fund deter-
18 mined by the Secretary to be in excess of the amount cur-
19 rently required to carry out the provisions of this title shall be
20 invested by the Secretary in obligations of, or obligations
21 guaranteed as to both principal and interest by, the United
22 States or any agency of the United States.

1 **SEC. 610. ANNUAL REPORT.**

2 The Secretary shall annually prepare and submit to the
3 Congress a comprehensive report setting forth the activities
4 carried out under this title. Such report shall include—

5 (1) an analysis of the characteristics of the fami-
6 lies assisted under this title during the preceding year,
7 including family size, number of children, family
8 income, sources of family income, race, age, and sex;

9 (2) an analysis of the market value of homes pur-
10 chased under this title during the preceding year;

11 (3) an analysis of the non-Federal public and pri-
12 vate financial or other contributions made during the
13 preceding year to reduce the cost of homes constructed
14 or substantially rehabilitated under each program;

15 (4) an analysis of the sales prices of homes under
16 this title during the preceding year;

17 (5) an analysis of the amounts of the grants made
18 to programs under this title during the preceding year;
19 and

20 (6) any recommendations of the Secretary for
21 modifications in the program established by this title in
22 order to ensure the effective implementation of such
23 program.

24 **SEC. 611. REGULATIONS.**

25 The Secretary shall issue such regulations as may be
26 necessary to carry out the provisions of this title. Any such

1 regulations shall be issued in accordance with section 553 of
 2 title 5, United States Code, notwithstanding the provisions of
 3 subsection (a)(2) of such section.

4 SEC. 612. AUTHORIZATION OF APPROPRIATIONS.

5 There are authorized to be appropriated to carry out
 6 this title \$150,000,000 for fiscal year 1988. Any amount ap-
 7 propriated under this section shall be deposited in the Nehe-
 8 miah Housing Opportunity Fund, and shall remain available
 9 until expended.

10 TITLE VII—ENTERPRISE ZONE 11 DEVELOPMENT

12 SEC. 701. DESIGNATION OF ENTERPRISE ZONES.

13 (a) DESIGNATION OF ZONES.—

14 (1) DEFINITION.—For purposes of this section,
 15 the term “enterprise zone” means any area that—

16 (A) is nominated by one or more local gov-
 17 ernments and the State or States in which it is
 18 located for designation as an enterprise zone (in
 19 this section referred to as a “nominated area”);
 20 and

21 (B) the Secretary of Housing and Urban De-
 22 velopment designates as an enterprise zone, after
 23 consultation with—

24 (i) the Secretaries of Agriculture, Com-
 25 merce, Labor, and the Treasury, the Direc-

1 tor of the Office of Management and Budget,
2 and the Administrator of the Small Business
3 Administration; and

4 (ii) in the case of an area on an Indian
5 reservation, the Secretary of the Interior.

6 (2) NUMBER OF DESIGNATIONS.—

7 (A) IN GENERAL.—The Secretary of Hous-
8 ing and Urban Development may designate not
9 more than 100 nominated areas as enterprise
10 zones.

11 (B) MINIMUM DESIGNATION IN RURAL
12 AREAS.—Of the areas designated under clause (i),
13 not less than $\frac{1}{3}$ shall be areas that—

14 (i) are within a local government juris-
15 diction or jurisdictions with a population of
16 less than 50,000 (as determined under the
17 most recent census data available);

18 (ii) are outside of a metropolitan statisti-
19 cal area (as designated by the Director of the
20 Office of Management and Budget); or

21 (iii) that are determined by the Secre-
22 tary, after consultation with the Secretary of
23 Commerce, to be rural areas.

24 (3) AREAS DESIGNATED BASED SOLELY ON
25 DEGREE OF POVERTY.—

1 (A) IN GENERAL.—Except as provided in
 2 subparagraph (B), the Secretary shall designate
 3 the nominated areas with the highest average
 4 ranking with respect to the criteria set forth in
 5 subparagraphs (C), (D), and (E) of subsection
 6 (c)(3). For purposes of the preceding sentence, an
 7 area shall be ranked within each such criterion on
 8 the basis of the amount by which the area ex-
 9 ceeds such criterion, with the area that exceeds
 10 such criterion by the greatest amount given the
 11 highest ranking.

12 (B) EXCEPTION WHERE INADEQUATE
 13 COURSE OF ACTION, ETC.—An area shall not be
 14 designated under subparagraph (A) if the Secre-
 15 tary determines that the course of action with re-
 16 spect to such area is inadequate.

17 (C) SEPARATE APPLICATION TO RURAL
 18 AND OTHER AREAS.—Subparagraph (A) shall be
 19 applied separately with respect to areas described
 20 in paragraph (2)(B) and to other areas.

21 (4) LIMITATION ON DESIGNATIONS.—

22 (A) PUBLICATION OF REGULATIONS.—
 23 Before designating any area as an enterprise
 24 zone, the Secretary shall prescribe by regulation
 25 not later than 4 months following the date of the

1 enactment of this Act, after consultation with the
2 officials described in paragraph (1)(B)—

3 (i) the procedures for nominating an
4 area under paragraph (1)(A);

5 (ii) the parameters relating to the size
6 and population characteristics of an enter-
7 prise zone; and

8 (iii) the manner in which nominated
9 areas will be evaluated based on the criteria
10 specified in subsection (d).

11 (B) TIME LIMITATIONS.—The Secretary
12 shall designate nominated areas as enterprise
13 zones only during the 24-month period beginning
14 on the later of—

15 (i) the 1st day of the 1st month follow-
16 ing the month in which the effective date of
17 the regulations described in subparagraph (A)
18 occurs; or

19 (ii) July 1, 1987.

20 (C) PROCEDURAL RULES.—The Secretary
21 shall not make any designation under paragraph
22 (1) unless—

23 (i) the local governments and the State
24 in which the nominated area is located have
25 the authority—

1 (I) to nominate such area for designa-
2 tion as an enterprise zone;

3 (II) to make the State and local
4 commitments under subsection (d); and

5 (III) to provide assurances satis-
6 factory to the Secretary that such com-
7 mitments will be fulfilled;

8 (ii) a nomination therefor is submitted in
9 such a manner and in such form, and con-
10 tains such information, as the Secretary shall
11 by regulation prescribe;

12 (iii) the Secretary determines that any
13 information furnished is reasonably accurate;
14 and

15 (iv) the State and local governments
16 certify that no portion of the area nominated
17 is already included in an enterprise zone or
18 in an area otherwise nominated to be an en-
19 terprise zone.

20 (5) NOMINATION PROCESS FOR INDIAN RESERVEA-
21 TIONS.—In the case of a nominated area on an Indian
22 reservation, the reservation governing body (as deter-
23 mined by the Secretary of the Interior) shall be
24 deemed to be both the State and local governments
25 with respect to such area.

1 (b) **PERIOD FOR WHICH DESIGNATION IS IN**
2 **EFFECT.—**

3 (1) **IN GENERAL.**—Any designation of an area as
4 an enterprise zone shall remain in effect during the
5 period beginning on the date of the designation and
6 ending on the earliest of—

7 (A) December 31 of the 24th calendar year
8 following the calendar year in which such date
9 occurs;

10 (B) the termination date designated by the
11 State and local governments as provided for in
12 their nomination pursuant to subsection
13 (a)(4)(C)(ii); or

14 (C) the date the Secretary revokes such des-
15 ignation under paragraph (2).

16 (2) **REVOCATION OF DESIGNATION.**—The Secre-
17 tary, after consultation with the officials described in
18 subsection (a)(1)(B) and a hearing on the record involv-
19 ing officials of the State or local government involved,
20 may revoke the designation of an area if the Secretary
21 determines that the local government or the State in
22 which it is located is not complying substantially with
23 the State and local commitments pursuant to subsec-
24 tion (d).

25 (c) **AREA AND ELIGIBILITY REQUIREMENTS.—**

1 (1) **IN GENERAL.**—The Secretary may make a
2 designation of any nominated area under subsection
3 (a)(1) only if it meets the requirements of paragraphs
4 (2) and (3).

5 (2) **AREA REQUIREMENTS.**—A nominated area
6 meets the requirements of this paragraph if—

7 (A) the area is within the jurisdiction of the
8 local government;

9 (B) the boundary of the area is continuous;
10 and

11 (C) the area—

12 (i) has a population, as determined by
13 the most recent census data available, of not
14 less than—

15 (I) 4,000 if any portion of such
16 area (other than a rural area described
17 in subsection (a)(2)(B)(i)) is located
18 within a metropolitan statistical area (as
19 designated by the Director of the Office
20 of Management and Budget) with a
21 population of 50,000 or more; or

22 (II) 1,000 in any other case; or

23 (ii) is entirely within an Indian reserva-
24 tion (as determined by the Secretary of the
25 Interior).

1 (3) **ELIGIBILITY REQUIREMENTS.**—For purposes
2 of paragraph (1), a nominated area meets the require-
3 ments of this paragraph if the State and local govern-
4 ments in which it is located certify and the Secretary,
5 after such review of supporting data as he deems ap-
6 propriate, accepts such certification, that—

7 (A) the area is one of pervasive poverty, un-
8 employment, and general distress;

9 (B) the area is located wholly within the ju-
10 risdiction of a local government that is eligible for
11 Federal assistance under section 119 of the Hous-
12 ing and Community Development Act of 1974, as
13 in effect on the date of the enactment of this Act;

14 (C) the unemployment rate, as determined by
15 the appropriate available data, was not less than
16 1.5 times the national unemployment rate for that
17 period;

18 (D) the poverty rate (as determined by the
19 most recent census data available) for each popu-
20 lous census tract (or where not tracted, the equiv-
21 alent county division as defined by the Bureau of
22 the Census for the purpose of defining poverty
23 areas) within the area was not less than 20 per-
24 cent for the period to which such data relate; and

1 (E) the area meets at least one of the follow-
2 ing criteria:

3 (i) Not less than 70 percent of the
4 households living in the area have incomes
5 below 80 percent of the median income of
6 households of the local government (deter-
7 mined in the same manner as under section
8 119(b)(2) of the Housing and Community
9 Development Act of 1974).

10 (ii) The population of the area decreased
11 by 20 percent or more between 1970 and
12 1980 (as determined from the most recent
13 census available).

14 (4) ELIGIBILITY REQUIREMENTS FOR RURAL
15 AREAS.—For purposes of paragraph (1), a nominated
16 area that is a rural area described in subsection
17 (a)(2)(B) meets the requirements of paragraph (3) if the
18 State and local governments in which it is located cer-
19 tify and the Secretary, after such review of supporting
20 data as he deems appropriate, accepts such certifica-
21 tion, that the area meets—

22 (A) the criteria set forth in subparagraphs
23 (A) and (B) of paragraph (3); and

24 (B) not less than one of the criteria set forth
25 in the other subparagraphs of paragraph (3).

1 (d) **REQUIRED STATE AND LOCAL COMMITMENTS.—**

2 (1) **IN GENERAL.**—No nominated area shall be
3 designated as an enterprise zone unless the local gov-
4 ernment and the State in which it is located agree in
5 writing that, during any period during which the area
6 is an enterprise zone, such governments will follow a
7 specified course of action designated to reduce the vari-
8 ous burdens borne by employers or employees in such
9 area. A course of action shall not be treated as meet-
10 ing the requirements of this paragraph unless the
11 course of action include provisions described in not less
12 than 4 of the subparagraphs of paragraph (2).

13 (2) **COURSE OF ACTION.**—The course of action
14 under paragraph (1) may be implemented by both such
15 governments and private nongovernmental entities,
16 may be funded from proceeds of any program adminis-
17 tered by the Secretary of Housing and Urban Develop-
18 ment or of any program administered by the Secretary
19 of Agriculture under title V of the Housing Act of
20 1949, and may include, but is not limited to—

21 (A) a reduction of tax rates or fees applying
22 within the enterprise zone;

23 (B) an increase in the level of public serv-
24 ices, or in the efficiency of the delivery of public
25 services, within the enterprise zone;

1 (C) actions to reduce, remove, simplify, or
 2 streamline paperwork requirements within the en-
 3 terprise zone;

4 (D) involvement in the program by public au-
 5 thorities or private entities, organizations, neigh-
 6 borhood associations, and community groups, par-
 7 ticularly those within the nominated area, includ-
 8 ing a written commitment to provide jobs and job
 9 training for, and technical, financial, or other as-
 10 sistance to, employers, employees, and residents
 11 of the nominated area;

12 (E) the giving of special preference to con-
 13 tractors owned and operated by members of any
 14 minority; and

15 (F) the gift (or sale at below fair market
 16 value) of surplus land in the enterprise zone to
 17 neighborhood organizations agreeing to operate a
 18 business on the land.

19 (3) RECOGNITION OF PAST EFFORTS.—In evalu-
 20 ating courses of action agreed to by any State or local
 21 government, the Secretary shall take into account the
 22 past efforts of such State or local government in reduc-
 23 ing the various burdens borne by employers and em-
 24 ployees in the area involved.

1 **(4) PROHIBITION OF ASSISTANCE FOR BUSINESS**
2 **RELOCATIONS.—**

3 **(A) IN GENERAL.—**The course of action im-
4 plemented under paragraph (1) may not include
5 any action to assist—

6 (i) any establishment relocating from
7 one area to another area; or

8 (ii) any subcontractor whose purpose is
9 to divest, or whose economic success is de-
10 pendent upon divesting, any other contractor
11 or subcontractor of any contract customarily
12 performed by such other contractor or
13 subcontractor.

14 **(B) EXCEPTION.—**The limitations estab-
15 lished in subparagraph (A) shall not be construed
16 to prohibit assistance for the expansion of an ex-
17 isting business entity through the establishment of
18 a new branch, affiliate, or subsidiary if the
19 Secretary—

20 (i) finds that the establishment of the
21 new branch, affiliate, or subsidiary will not
22 result in an increase in unemployment in the
23 area of original location or in any other area
24 where the existing business entity conducts
25 business operations; and

1 (ii) has no reason to believe that the
2 new branch, affiliate, or subsidiary is being
3 established with the intention of closing
4 down the operations of the existing business
5 entity in the area of its original location or in
6 any other area where the existing business
7 entity conducts business operations.

8 (e) DEFINITIONS.—For purposes of this section:

9 (1) GOVERNMENT.—If more than one government
10 seeks to nominate an area as an enterprise zone, any
11 reference to, or requirement of, this section shall apply
12 to all such governments.

13 (2) LOCAL GOVERNMENT.—The term “local gov-
14 ernment” means—

15 (A) any county, city, town, township, parish,
16 village, or other general purpose political subdivi-
17 sion of a State;

18 (B) any combination of political subdivisions
19 described in subparagraph (A) recognized by the
20 Secretary; and

21 (C) the District of Columbia.

22 (3) SECRETARY.—The term “Secretary” means
23 the Secretary of Housing and Urban Development.

24 (4) STATE.—The term “State” includes Puerto
25 Rico, the Virgin Islands, Guam, American Samoa, the

1 Northern Mariana Islands, and any other possession of
2 the United States.

3 **SEC. 702. EVALUATION AND REPORTING REQUIREMENTS.**

4 Not later than the close of the 4th calendar year after
5 the year in which the Secretary of Housing and Urban De-
6 velopment first designates areas as enterprise zones, and at
7 the close of each 4th calendar year thereafter, the Secretary
8 shall prepare and submit to the Congress a report on the
9 effects of such designation in accomplishing the purposes of
10 this title.

11 **SEC. 703. INTERACTION WITH OTHER FEDERAL PROGRAMS.**

12 (a) **COORDINATION WITH RELOCATION ASSIST-**
13 **ANCE.**—The designation of an enterprise zone under section
14 701 shall not—

15 (1) constitute approval of a Federal or federally
16 assisted program or project (within the meaning of the
17 Uniform Relocation Assistance and Real Property Ac-
18 quisition Policies Act of 1970 (42 U.S.C. 4601 et
19 seq.)); or

20 (2) entitle any person displaced from real property
21 located in such zone to any rights or any benefits
22 under such Act.

23 (b) **ENTERPRISE ZONES TREATED AS LABOR SUR-**
24 **PLUS AREAS.**—Any area that is designated as an enterprise

1 zone under section 701 shall be treated for all purposes under
2 Federal law as a labor surplus area.

3 **SEC. 704. WAIVER OR MODIFICATION OF HOUSING AND COM-**
4 **MUNITY DEVELOPMENT RULES IN ENTERPRISE**
5 **ZONES.**

6 (a) **IN GENERAL.**—Upon the written request of the gov-
7 ernments that designated and approved an area that has been
8 designated as an enterprise zone under section 701, the Sec-
9 retary of Housing and Urban Development (or, with respect
10 to any rule issued under title V of the Housing Act of 1949,
11 the Secretary of Agriculture) may, in order to further the job
12 creation, community development, or economic revitalization
13 objectives of the zone, waive or modify all or part of any rule
14 that the Secretary has authority to promulgate, as such rule
15 pertains to the carrying out of projects, activities, or under-
16 takings within the zone.

17 (b) **LIMITATION.**—No provision of this section may be
18 construed to authorize the Secretary to waive or modify any
19 rule adopted to carry out a statute or Executive order that
20 prohibits, or the purpose of which is to protect persons
21 against, discrimination on the basis of race, color, religion,
22 sex, marital status, national origin, age, or handicap.

23 (c) **SUBMISSION OF REQUESTS.**—A request under sub-
24 section (a) shall specify the rule or rules to be waived or
25 modified and the change proposed, and shall briefly describe

1 why the change would promote the achievement of the job
2 creation, community development, or economic revitalization
3 objectives of the enterprise zone. If a request is made to the
4 Secretary of Agriculture, the requesting governments shall
5 send a copy of the request to the Secretary of Housing and
6 Urban Development at the time the request is made.

7 (d) CONSIDERATION OF REQUESTS.—In considering a
8 request, the Secretary shall weigh the extent to which the
9 proposed change is likely to further job creation, community
10 development, or economic revitalization within the enterprise
11 zone against the effect the change is likely to have on the
12 underlying purposes of applicable statutes in the geographic
13 area that would be affected by the change. The Secretary
14 shall approve the request whenever the Secretary finds, in
15 the discretion of the Secretary, that the public interest that
16 the proposed change would serve in furthering such job cre-
17 ation, community development or economic revitalization
18 outweighs the public interest that continuation of the rule
19 unchanged would serve in furthering such underlying pur-
20 poses. The Secretary shall not approve any request to waive
21 or modify a rule if that waiver or modification would—

- 22 (1) directly violate a statutory requirement; or
23 (2) be likely to present a significant risk to the
24 public health, including environmental health or safety.

1 (e) NOTICE OF DISAPPROVAL.—If a request is disap-
2 proved, the Secretary shall inform the requesting govern-
3 ments in writing of the reasons therefor and shall, to the
4 maximum extent possible, work with such governments to
5 develop an alternative, consistent with the standards con-
6 tained in subsection (d).

7 (f) PERIOD FOR DETERMINATION.—The Secretary
8 shall discharge the responsibilities of the Secretary under this
9 section in an expeditious manner, and shall make a determi-
10 nation on requests not later than 90 days after their receipt.

11 (g) APPLICABLE PROCEDURES.—A waiver or modifica-
12 tion of a rule under subsection (a) shall not be considered to
13 be a rule, rulemaking, or regulation under chapter 5 of title
14 5, United States Code. To facilitate reaching a decision on
15 any requested waiver or modification, the Secretary may
16 seek the views of interested parties and, if the views are to be
17 sought, determine how they should be obtained and to what
18 extent, if any, they should be taken into account in consider-
19 ing the request. The Secretary shall publish a notice in the
20 Federal Register stating any waiver or modification of a rule
21 under this section.

22 (h) EFFECT OF SUBSEQUENT AMENDMENT OF
23 RULES.—In the event that the Secretary proposes to amend
24 a rule for which a waiver or modification under this section is
25 in effect, the Secretary shall not change the waiver or modifi-

1 cation to impose additional requirements unless the Secretary
 2 determines, consistent with standards contained in subsection
 3 (d), that such action is necessary.

4 (i) EXPIRATION OF WAIVERS AND MODIFICATIONS.—

5 No waiver or modification of a rule under this section shall
 6 remain in effect for a longer period than the period for which
 7 the enterprise zone designation remains in effect for the area
 8 in which the waiver or modification applies.

9 (j) DEFINITIONS.—For purposes of this section:

10 (1) RULE.—The term “rule” means—

11 (A) any rule as defined in section 551(4) of
 12 title 5, United States Code; or

13 (B) any rulemaking conducted on the record
 14 after opportunity for an agency hearing pursuant
 15 to sections 556 and 557 of such title 5.

16 (2) SECRETARY.—The term “Secretary” means
 17 the Secretary of Housing and Urban Development or,
 18 with respect to any rule issued under title V of the
 19 Housing Act of 1949, the Secretary of Agriculture.

20 SEC. 705. COORDINATION OF HOUSING AND URBAN DEVELOP-
 21 MENT PROGRAMS IN ENTERPRISE ZONES.

22 Section 3 of the Department of Housing and Urban De-
 23 velopment Act is amended by adding at the end the following
 24 new subsection:

25 “(d) The Secretary shall—

1 “(1) promote the coordination of all programs
2 under the jurisdiction of the Secretary that are carried
3 on within an enterprise zone designated pursuant to
4 section 701 of the Housing and Community Develop-
5 ment Act of 1987;

6 “(2) expedite, to the greatest extent possible, the
7 consideration of applications for programs referred to in
8 paragraph (1) through the consolidation of forms or
9 otherwise; and

10 “(3) provide, whenever possible, for the consolida-
11 tion of periodic reports required under programs re-
12 ferred to in paragraph (1) into one summary report
13 submitted at such intervals as may be designated by
14 the Secretary.”.

15 **SEC. 706. COORDINATION WITH CDBG AND UDAG PROGRAMS.**

16 It is the policy of the Congress that amounts provided
17 under the community development block grant and urban de-
18 velopment action grant programs under title I of the Housing
19 and Community Development Act of 1974 shall not be re-
20 duced in any fiscal year in which the provisions of this title
21 are in effect.



Chairman GONZALEZ. We have as our first witness the very distinguished—

Mr. FRANK. Mr. Chairman?

Chairman GONZALEZ. Yes.

I wasn't getting ready to introduce him. I don't blame you because you had no reason to believe I wasn't going to. [Laughter.]

As I said, the first witness, of course, is one of the most, if not the most distinguished American who, in his responsibilities as Governor of one of our leading States, has taken a leadership role in housing problems.

We also heard testimony from Governor Cuomo of New York on February 4, 1989. Both before they became governors, had been very much involved in the housing problems and situations in their communities.

I wanted to say that the Governor comes with a splendid reputation, and I will leave the flourishes and details to the two distinguished Members of this committee that proceed from this great and glorious Commonwealth of Massachusetts. We will follow the seniority rule.

Mr. Frank came a little bit late after the rebellion of the young that tried to eliminate the seniority rule. So he has full claim to seniority status. [Laughter.]

Mr. Frank.

Mr. FRANK. Thank you, Mr. Chairman. I am not sure what I will do about the flourishes. Mr. Kennedy and I didn't get to divide up the ruffles and flourishes between us and neither one of us wanted to take the ruffles. [Laughter.]

But I want to begin in part by apologizing because, as the Governor knows, we do have—which we didn't know when he was scheduled to come—the Nicaragua debate, and I think that accounts for fewer people being here, but it is also the case that people tend not to be here when they think they are not needed, and I think, at least on our side, there was a perception that Governor Dukakis has done a superb job in housing and is here to talk about the right things and needn't be flouted from this side.

But I also want to apologize because I will be getting over to the floor at some point because I want to participate in that debate.

I just wanted to say that we have been told by this administration in its relentless war on housing that, well, this is not something that the Federal Government should do exclusively, States and cities should do their part, and I think one of the most important messages people will get today from Governor Dukakis is that it has been very difficult for the States to do their part precisely because of the Federal cutbacks.

Massachusetts has been superb in the area of housing. I have been very proud to be a Representative from Massachusetts, as I have seen the energy level and the creativity which has gone into it, and it is good that the Governor is accompanied by Secretary Amy Anthony, who has worked hard on this, and Marvin Siflinger, who heads the Massachusetts Housing Finance Agency.

They have all worked together well, and any possible program at the Federal level that can be used has been used, plus there have been State resources put into it.

So on the one level, that is grounds for congratulating the Governor because he has met the responsibility here as well as anybody in the country and better than almost anybody, but it also, from our perspective, shows that with the best will in the world and the greatest creativity and a willingness to put the State's own resources there, the job can't be done alone. Federal help can't be replaced by a State.

As a matter of fact, the right kind of Federal program, given what is going on in Massachusetts and elsewhere, can be leveraged.

So what we are talking about here is if we were to vote sufficient funds we are going to get a lot more than our money's worth, and there have been too many people arguing that private initiative and local initiative and State initiatives are a substitute for the Federal role. It simply isn't the case. They have to work well together, particularly when we are talking about something as important as housing.

And the charts are useful. Nothing has taken a greater hit under this administration than housing, and the surprise that we continue to get about the homeless is wholly inappropriate. We have created homelessness in this country by Federal policies that have in fact helped municipalities enrich themselves while simultaneously degrading their ability to provide housing for people in need.

Also I am glad to have the Governor here and Secretary Anthony, and I hope people will, when they peruse their testimony, understand that what they are getting here is a kind of a prepayment on the part of a State that has already done its part, and if the Federal Government will only show some cooperation, we will be able to do a great deal more.

And I want to apologize in advance because I will be leaving to get over to the floor to do my debate time and, as I think the Governor would probably agree, if we are lucky today, we may come up with a few extra bucks.

People are going to say how are we going to pay for it. Well, we can get a down payment on some important housing programs by stopping the waste of money in Central America that has been going on, and so it is probably an auspicious day for the Governor to be here.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you very much, Mr. Frank. By the way, have you made sure you have the Fall River newspaper here?

Mr. FRANK. I think Fall River is well-represented. Thank you, Mr. Chairman.

Chairman GONZALEZ. All right, I just wanted to make sure we have full coverage.

Mr. FRANK. The Chairman accompanied me to Fall River in 1982. The choice of date is entirely fortuitous, of course. I just thought there was a need to have a hearing that year. [Laughter.]

Chairman GONZALEZ. It was a great trip.

Mr. Kennedy.

Mr. KENNEDY. Well, thank you very much, Mr. Chairman, Members of the committee, Barney.

First of all, I would just like to welcome Governor Dukakis, Amy Anthony back to Washington, DC.

I have noticed that the Governor has been making a few trips to Washington lately. Last time I believe it was to talk about the tremendous program E.T., and all I can say is we look forward to seeing a lot more of you down in this town in the future.

Obviously, the good Lord and the voters of Iowa and New Hampshire, as well as a number of other States, are going to have some determination in that, but we are very much looking forward to the kind of leadership that you and Secretary Anthony have shown in Massachusetts.

Now, when we talk about the—as Barney eloquently stated—the housing problem in this country, we talk about homelessness, which is obviously an issue that you are well aware of in our home State, but we also really, I think, need to focus on the fact that in 1949 this Federal Government passed the National Housing Act, which guaranteed Americans a right to a shelter.

What we have seen is that the last year of a Democratic administration over 300,000 housing units were provided by the Federal Government. This last year it was some 11,000 units, and it just seems that what we really need is the kind of public/private partnerships that you have demonstrated in Massachusetts really do work, whether it is the SHARP program in conjunction with Marvin Siflinger and the Massachusetts Housing Finance Agency or any of the other innovative initiatives.

What you have done is demonstrated that we can have an activist government that gets involved in the problems that our people face, and we can begin to solve them.

So it is an honor and a privilege for me to be here to listen to your testimony, both Governor Dukakis and your terrific Secretary of Economic Development, EOCD, Amy Anthony.

Welcome, both of you.

STATEMENT OF HON. MICHAEL S. DUKAKIS, GOVERNOR OF THE COMMONWEALTH OF MASSACHUSETTS, REPRESENTING THE NATIONAL GOVERNORS' ASSOCIATION; ACCOMPANIED BY AMY ANTHONY, SECRETARY OF THE EXECUTIVE OFFICE OF COMMUNITIES AND DEVELOPMENT (EOCD)

Governor DUKAKIS. Thank you, Mr. Chairman. Thank you, Congressman Frank. Thank you, Congressman Kennedy.

It is a great pleasure to be here, and I welcome the opportunity, Mr. Chairman, to speak with you today on behalf of the National Governors' Association on H.R. 4.

This legislation does much that is useful and necessary to restore the kind of role that the Federal Government ought to have in providing decent and affordable housing to all of our citizens.

And let me say parenthetically that while I appreciate what Barney and Joe have said, please bear in mind that Massachusetts is one of the fortunate States today, economically and financially.

I am on my way to Louisiana tomorrow morning, where the unemployment rate, Congressman, is 14-15 percent.

Those States that are suffering from that kind of economic distress are in no position, Mr. Chairman, even to do what we have done, and so the need for Federal resources and a recommitment of this country to decent and affordable housing is even greater in

States that are suffering and suffering very severe economic distress.

And your State is one of them, Mr. Chairman, Congressman Roemer's is another, and I think we know that some half of our States in this country are today and have been in recession for the last 6 or 7 years.

But I do want to add to my support for the bill itself a statement of the additional steps which I think we as a nation must take to confront the reality of millions of Americans facing an imminent housing emergency.

Just 3 weeks ago, Mr. Chairman, when the National Governors' Association had its midwinter meeting, I was out exercising early in the morning, going by this Capitol and along the Mall. I saw, as you see every day, the tragic reality of fellow citizens alone and without a home sleeping in cardboard boxes in the Nation's Capital, and that spectacle is going on in cities and towns all across America.

Fifty years after the passage of the Steagall Housing Act, hundreds of thousands of individuals and families are sleeping on the streets and in the doorways of cities and towns all across America.

Fifty-five years after Franklin Roosevelt told us that $\frac{1}{3}$ of the Nation was ill-housed, thousands of our fellow citizens have no place to go.

Until 1980, as you pointed out, Mr. Chairman, there was no debate in this country about our responsibility to provide decent and affordable housing for our people.

Joe, the Housing Act of 1949, as you know, was co-sponsored by Senator Robert Taft of Ohio, not a man with a radical reputation but a thoughtful and responsible leader of the Republican Party who believed just as deeply as we do in decent and affordable housing for all America.

And under the administrations of both President Ford and President Carter, we were building or rehabilitating over 200,000 units of federally assisted housing for families of low and moderate income every year.

Today we are doing barely 25,000 units, and that may be down, Joe, and the President in his budget proposes 3000 units of low and moderate income housing for the entire United States of America.

Mr. Chairman, we have 8000 units under development in the State of Massachusetts today, and we continue to have a serious housing emergency, and what we have is a proposal, presumably serious, that the entire housing needs of low and moderate income families in this country are going to be dealt with by the addition of some 3000 units.

No wonder we have a homelessness problem in this country. It is a national scandal, Mr. Chairman. It is a national embarrassment.

The experience of the past half decade indicates that State and local initiative can produce affordable housing, but we can't do what we must do and we should do without some support from our friends in Washington, and that support must deal with three central problems in our current housing situation—homelessness, a serious decline in affordable housing for ownership, and the threat to the existing stock of subsidized housing which you have already noted, Mr. Chairman, in your introductory remarks.

The emergency comprehensive homeless legislation which just passed this House is a very important first step, and let me say thank you, Mr. Chairman, to Speaker Wright, and to all of you for moving into the vacuum that has existed at the national level.

As many have testified here and as my experience in Massachusetts indicates, the homeless are different kinds of people. They are mentally ill, they are substance abusers in some cases, they are single elderly and increasingly families with children, and their needs are many—health care, food, emergency shelter, and reintegration into the community.

But, Mr. Chairman, the fundamental fact of the matter is that we didn't have a homelessness problem in this country 6 years ago, and we had people with serious mental and emotional problems. We had people that had difficulty making it in the community in many ways. We had substance abuse at that time. We had elderly people, and we certainly had families with children.

We didn't have a homelessness problem in this country 6 years ago, and we have one today, and there is only one basic difference between what was going on then and what is going on today. We simply aren't building any substantial amounts of housing for families of low and moderate income.

In my State, a booming economy has put enormous pressure on the real estate market and rents have soared beyond the reach of many low and moderate income families. The median price, Mr. Chairman, of a single family home in the Metropolitan Boston area last week reached \$167,000, and rents, needless to say, have risen accordingly.

But we in Massachusetts are not alone. Housing costs for low income households have risen dramatically across the country. The median rent in 1974 for households in the lowest income class was approximately 35 percent of income, already too high. That figure has risen to 46 percent of annual income in 1983.

For female-headed households with small children, the national figures on shifting rent burden are even worse. In 1974, 17 percent of such households paid more than 75 percent of their income for gross rent. In 1983, 17 percent had risen to 34 percent.

Mr. Chairman, when $\frac{1}{3}$ of the Nation's single mothers obtain $\frac{1}{4}$ of their income for housing, it is not hard to understand why more and more of these families are moving into shelters.

And we need a Federal/State partnership that produces good housing at affordable cost if we're going to change things.

I strongly recommend to you and to the Congress a housing production block grant program which would be used by States to supplement their own efforts and the utilization of the tax credits made available in the Tax Reform Act.

We have a responsibility to take those funds, work with communities and developers, both private and nonprofit, and build or rehabilitate mixed income housing.

And I want to emphasize that, Mr. Chairman. As the Governor of a State which pioneered in the concept of mixed income housing, I can tell you it's been an unparalleled success. It works. It is continuing to work under our SHARP Program, which I will describe in a minute. And it is the best way I know to build or rehabilitate decent housing for families of low and moderate income and do so

in a way that makes them a part of the community in every sense of the word.

Our experience in Massachusetts with our State housing assistance for rental production or SHARP Program, which Congressman Kennedy mentioned, shows that the careful use of public dollars can encourage the private sector and nonprofit developers to produce mixed income housing.

Several weeks ago in Boston, I had the opportunity in the Jamaica Plains section of the city to meet with a young woman, 26 years of age, a single mother, who, Mr. Chairman, had spent 2 years moving from shelter to shelter with four small children.

She simply could not compete in our current housing market. Today, she and her children are living in a lovely, three-bedroom apartment in a former Boston high school that has been transformed into 75 outstanding mixed income units, thanks to SHARP.

She was helped, I should add, by a section 8 certificate. But she was lucky. When the developer of this project advertised for holders of section 8 certificates to come and seek 19 units of the 75, which were designated as low income units, 220 families holding section 8 housing certificates showed up, which means that 201 of them left without housing.

So the housing market isn't working for low-income people. The units simply are not there. SHARP provides an interest subsidy which decreases over a 15-year period and is a loan.

Seventy-five hundred units are being built under this program right now in Massachusetts. And to give you some idea of the cost-effectiveness of SHARP, consider the following:

Section 8 new construction on average laid out about \$10,000 per unit per year as a grant for a total Federal outlay over the 30-year life of the mortgage of some \$300,000 a unit.

SHARP averages \$1,500 per unit per year for 5 years, reducing itself to zero at the end of 15 years as a loan for a total outlay per unit of \$22,500.

Now, in addition to the housing block grant to support the State and local role, there is a continued need for those rental subsidies that would be provided by sections 231 through 237 of your bill. Such help worked for that young mother of four and we can use a lot more of it.

But it's not just the very poorest of this country's households that are being shut out of the housing market. Escalating home prices have made it virtually impossible for young families, especially in the North East, but in other parts of the country as well, to find a modest and affordable home.

We had a dramatic example of that recently in my State. A police chief on Cape Cod, looking for new police officers to hire for his force, came to the conclusion that he was virtually limited to recruiting 19 and 20-year olds still living at home with their parents, because more experienced officers or older men with families simply could not find homes in his community.

And as in the case of the homeless problem, a look at national statistics makes it clear that Massachusetts is by no means alone in facing a drop in home ownership.

Until 1980, home ownership rights for this country as a whole had increased steadily for 35 years. Owning your own home has been a part of the American dream as long as I can remember.

Since 1980, however, these rates have fallen every year. The young buyer is the most dramatic casualty of the decline. Among households headed by the individuals in the 25-29-year old age group, home ownership fell from a rate of approximately 43 percent in 1975 to 34 percent 10 years later.

For those in the 30-34-year old age group, the rate fell from 62 percent in 1975 to approximately 53 percent in 1985. We can get an added perspective on the home ownership problem by looking at median sales prices from around the country translated into the income levels necessary to meet the prices.

The median single-family price in Hartford, CT today is about \$103,000, Mr. Chairman. The family needs to earn approximately \$41,000 a year to afford a house at that price. And \$41,000 is well beyond the income level of many of our young families.

In the San Diego metropolitan area, a family must earn some \$43,450 a year to afford a single family home costing \$110,000.

In Denver, to be sure, the median sales price is lower, about \$84,500, but a young family still needs an annual income of about \$33,000 to buy that house.

Now, most of you remember as I do that, at the end of World War II, the VA and the FHA made home ownership available to young couples and young families. We helped make the American dream of home ownership a reality for those families.

In 1987, we need to ensure that the kinds of opportunities available then are also available to young families today.

In Massachusetts, we're creating local housing partnerships that can build affordable housing for ownership.

And, Mr. Chairman, we'll get Congressman Kennedy one of those tee-shirts, have no fear.

We created something we call the Home Ownership Opportunity Program, which uses available public lands, special grants and below market mortgages to build housing for the moderate income, first-time home buyer. Dozens of local communities have now stepped up to the plate and been formally designated partnership communities. I think we have now 70 that have already become formally partnership communities and are working with us.

Nehemiah grants, which are part of H.R. 4, represent another way of making it possible for more young families to own their own home. And with a few changes, which I would like to suggest this afternoon, Mr. Chairman, the Nehemiah program could also become a smaller-scale program for use by the wide range of communities now served by Massachusetts Home Ownership Program.

We find that, in many communities, there just isn't land for 50 or 100 or 200 units for ownership. But there's land available for 10 or 15 or 20 or 25. And our feeling is that any addition to that supply of units for home ownership is an important step forward.

What we hope the program can offer is a way for States to make creative use of limited Federal funds, build housing partnerships at the local level and get housing for ownership built and available fast.

We must also, as you have pointed out, ensure that existing low income housing is preserved and improved, and we'd like, Mr. Chairman, to work with you to see if we can deal with this problem of 221(d)(3) and 236 units that are soon facing very, very serious problems. We simply cannot afford to lose three million housing units in this country that are currently occupied by families of low and moderate income, and we'd be very pleased to work with you on a solution to that problem.

Already some 70 communities in Massachusetts have formed those local housing partnerships I talked about. We're working closely with them. One small city in Central Massachusetts, Fitchburg, is a great example of this. They've done a terrific job on homelessness. There is today not a single homeless family in the city of Fitchburg.

Not only that but we have some fine people in the building and housing community. One, Yvon Evon Robichard literally decided to forego a substantial percentage of his profit on some home ownership units that he was building because he wanted to build them in his neighborhood for his neighbors, and that's the kind of spirit, that's the kind of partnership that we're seeing all across the State.

It's true that during the first 50 years of Federal housing policy in this country, most States didn't play much of a role in providing decent, affordable housing for families of low and moderate income.

But, in the last few years, State governments have decided that we must get involved. And, as we have learned in Massachusetts, we can do a lot when we work as partners with the entire housing community.

But we need help. We need that vital Federal presence, Mr. Chairman, that can bring down the barrier to housing opportunities for all of our people.

I look forward to working with you. Secretary Anthony is here with me and she has been the driving force behind our housing program. And I know I speak for all the Governors when I say that, with your help and your cooperation, we'll be more than willing to hold up our end of the bargain.

We're both here to respond to your questions and, obviously, we look forward to working with you on what is a very, very important national priority.

[The statements submitted by Mr. Dukakis can be found in the appendix.]

Chairman GONZALEZ. Governor, thank you again, not only for being here with us, but for presenting a very succinct, eloquent, and forceful statement.

I think the record ought to show that throughout the field hearings we've had in the last 6 years from the Eastern Shore, just 1 hour and 15 minutes drive from here, you can find worse housing conditions for many of the migrant farm labor families than you can find in Third World countries.

I hadn't seen housing conditions like that since 65 years ago in Texas. And that was pretty bad. The migrant families are beyond the sight of the average American, but they're there. And it was just very depressing.

And that was 6 years ago. From there, we went clear across to San Diego, CA. The city of San Diego has acted very admirably with respect to the homeless and provided a very good shelter program.

They rose to the occasion, even though it's difficult to visualize San Diego with a homeless problem. It's beautiful weather, ideal year around, but they do.

The subcommittee has also gone to Minnesota, down to Texas, to the North East and into New York. And in less than 1 year's time, we went four times, from east Brooklyn to southeast Bronx, southwest Bronx.

And there's no question that you, as in the case of the State of New York, were an inspiration to us when we were fighting to keep from being demoralized, because everywhere we turned here, we couldn't find any help—not even among our own leadership, that misjudged the thrust of the challenge that President Reagan has provided.

It was obvious from the beginning that what he was saying was that everything that had been done for the last 30 years had been wrong, including the housing program.

When we had the first hearing, we were very lucky to have had the Director of the Office of Management and Budget testify. This was the only time he had appeared before a nonbudgetary committee. And had we adopted what he was requesting for the President, by July 1, we would have xeroxed out the FHA Program.

I think the record ought to reflect that what you've done in Massachusetts, and what Governor Cuomo and Mayor Koch in New York have done is simply admirable. You set the pace again as national State leaders.

California was very impressive until the present Governor, who has literally stripped all the programs that began with Jerry Brown. California had a comparable housing finance agency comparable to any, including New York. But, now, really, the two leading States, way ahead, are New York and Massachusetts.

You've diverted tremendous sums of your resources, which, for whatever reason, other States have been unwilling or unable to do so, as you said—some for good reason.

But I think the record ought to show that what you have done has been outstanding. You have come in and filled in for the lack of national responsibility.

And we want to thank you because, if anything, that's what's going to enable us to come out winning in the end, as I think we will with H.R. 4.

The only question I had was with regard to your very wonderful suggestion about the creation of what would almost be tantamount to a trust fund, your block housing—what I would call housing finance—and how—could you briefly tell us how that could be used to dovetail with such programs as your SHARP? And how it would be looked upon as useful to the States?

Governor DUKAKIS. Sure. Let me tell you how the partnership is working, and then I think that will give you a sense of how a Federal block grant program, if you will, to the States could be helpful to us.

And let me begin by saying that, although I know a great deal of what inspired the administration's views on the subject of housing and publicly-assisted housing stem from their own special brand of ideology, the private sector in Massachusetts is deeply involved with us.

The housing industry, development industry, good people in the business community—there is a very strong feeling on the part of business people and the builders of housing that they've got to participate in this, and they want to do it.

And, in fact, as I pointed out, in the city of Fitchburg, and that is by no means an isolated instance, I don't know of too many developers or builders of housing who will not voluntarily come to us these days and say:

Look, I'll set aside a certain portion of my units for——

Chairman GONZALEZ. Will you yield to me? Because you're asking a question there. You're asking a hypothetical, rhetorical question, knowing full well the ideological basis for the thrust of this administration's activities, and you ask a question about the private sector.

Well, we faced solid opposition on the part of home builders, realtors, mortgage bankers. In fact, many of them were active campaign workers for the administration. Not once did we get them to disavow the crippling, disabling blows that this administration was advocating.

Now, to me, it seemed that we were having a giant, national Jonestown, where you had the leaders saying:

Take this potion, and everybody was dropping dead, but they were still going to be saved by drinking the potion.

And what I'd like to ask you, how do you account for that?

When you translate it to the local level, yes, you had builders that were saying: Hey, look, this isn't good. We're having a hard time building at affordable prices, so we can have rentals at affordable prices.

Governor DUKAKIS. Mr. Chairman, I can't explain it. Maybe a great many people in this country didn't quite appreciate what—how important the Federal role was. Six years later, as we walked down our streets in virtually every city in this country and we see people sleeping in streets and in doorways, we're beginning to appreciate the consequences.

And it took 5 or 6 years to do it. And now we're all embarrassed and we wonder what's happened.

And what's happened is that we simply have not maintained that commitment to decent, affordable housing for families of low and moderate income. And the consequences are everywhere in very tragic human terms.

Now, let me get back to your question and simply say this. What we try to do—and each of these projects is different—is to encourage our local communities, with our help, to link up with a private developer, with a nonprofit community development corporation or housing corporation, to identify land which, for example, might be municipally owned—an abandoned school or even a vacant lot that's owned by a municipality.

That goes in for nothing. So that's an important local subsidy. Or there may be State land in the community, which we've been sitting on for sometime, which we can in effect donate to this.

We just turned over 10 parcels of land in the so-called Southwest Corridor in Boston to the city of Boston, at no cost—land owned by the Commonwealth, which we acquired in developing a new transportation corridor down that Southwest Corridor.

Those 10 parcels will now be available to the city and they are in the process of planning 10 separate housing developments along that corridor, which will blend in with the new transit line, and so on.

That land was donated free, a very substantial subsidy.

The community may have other resources which they can contribute. We will, in some cases, Amy will provide a community development block grant or a special infrastructure grant, which will help to provide access sewer connections, water connections, and so on.

And then we will come in with our below market mortgages, which we are willing to subsidize through our State housing partnership trust fund, which we created with the very strong support of our legislature.

Now, what we would do if we were eligible for a housing block grant each year would be to take those resources and fit them into this.

And, in each case, I suspect it might be a different element that would make that project go. It might be an addition to the mortgage subsidy. It might be a grant to make it possible for infrastructure improvements to be made. It might be at least a partial payment on the cost of the land if it were privately-held, any and all of these things.

But what we have found, particularly in a market like ours, is that you've got to do each of these carefully and well, and no one of them is the same as another.

So, having that housing money in a flexible block grant would be of enormous advantage to us because we could then use it in a way that fit.

Secretary Anthony might want to add to that because she——

Chairman GONZALEZ. I think the reporter should note that her name is Amy Anthony, and she is the Secretary of your Housing program, as well as your SHARP Program.

Ms. ANTHONY. I think that the block grant, as the Governor said, could be used in conjunction with locally developed projects. Just one example, in addition to those the Governor mentioned, we provided from our housing fund, GAF financing for developments that were, frankly, in trouble as tax reform took over at the end of the last year. Some rental developments which were under way had a GAF. We were able to loan them, at very low rates, a loan that enabled the development to proceed. I think that the availability of the tax credit which is, as yet, unproven, is something which will require additional support from the States for rental developments to really happen. And that is another way in which this could be used.

Chairman GONZALEZ. These were rental developments?

Governor DUKAKIS. Some are rentals, some are ownership. Many of them are ownership.

Chairman GONZALEZ. In your ownership program, what would be the ongoing interest rate on your subsidized base?

Governor DUKAKIS. It is flexible. We can write it down to a minimum of 5½ percent. We have been able to write some of those mortgages down.

Chairman GONZALEZ. Very good.

Governor DUKAKIS. That, in many cases, as you understand, may make all the difference between a family's ability to pay for that mortgage on an ongoing basis or be unable to afford it.

Chairman GONZALEZ. Yes, sir.

Governor DUKAKIS. We have been able to develop housing in the \$60,000, \$70,000, \$80,000 range with at least some portion of those mortgages at 5½ or 6 percent.

Chairman GONZALEZ. Are these fixed rate long-term mortgages?

Governor DUKAKIS. Yes.

Chairman GONZALEZ. Well, that is great, and I really thank you. My time really has expired. I will recognize Mr. Garcia.

Mr. GARCIA. I would just like to join with the chairman of this subcommittee. It seems to me that the biggest problem we have today in America is the question of housing, and the unfortunate part is that even here in the Congress of the United States, where you would think that people on this side of the aisle would join together and vote in unison for housing legislation, you find even some of our own colleagues voting against housing. Different parts of the country have different problems. So there are some people who don't focus in on it, because they have other problems within their districts that take a higher priority.

The reason why I wanted to join with the chairman is that I think it is people like yourself and my governor which make a difference. It is possible to get national headlines and the type of publicity that focuses more on the needs.

As just one quick example—and I will not ask you a question—I just wanted to thank you for being here—in New York's Grand Central Station, try and get a locker. Just a locker to put a bag in if you have a half hour or an hour to wait for a train. You can't. Every one of the homeless have their belongings in those lockers at Grand Central Station. It is really something at 8 or 9 o'clock when that station is getting ready to close down for the evening, the number of homeless who are waiting to get into the grates surrounding Grand Central Station.

So I would just like to thank you very much for being here, because, as one who represents a district that has a serious housing problem, I want you to know that we are deeply appreciative of your initiative on this.

Governor DUKAKIS. Thank you, Congressman, very much.

Chairman GONZALEZ. Thank you very much, Mr. Garcia. Mr. Saxton? No questions. Mr. Roemer.

Mr. ROEMER. Thanks, Henry. I want to welcome the Governor and appreciate his testimony, and we look forward to having you in Louisiana tomorrow.

Governor DUKAKIS. I am looking forward to it.

Mr. ROEMER. We will have a big crowd for you, and they want courage and a vision. I am sure you will give them both.

Governor DUKAKIS. Thank you.

Mr. ROEMER. What would you say to the proposition, Governor, that since 1981, and where the funds have been throttled back, that we ought to use this opportunity to take a new look at the old world, as you have done here, rather than just rekindle and refund our old programs? Would we be off base in doing that? Because that seems to be exactly what you are suggesting here. I notice you didn't come today and say, take the old programs and give us new money. You were suggesting new partnerships, new grants, new flexibility. You mentioned Nehemiah, et cetera, et cetera.

Am I on the right track in understanding your tone? Are you asking for a revisit with new money or a new visit with new money? Am I making sense there? Because we debate in this committee. We've had it year after year in our attempt to try to get a handle on the budget, it's whether we need to send more money to the old programs, or we need to use this crisis as an opportunity for new programs or not.

Governor DUKAKIS. Let me respond in two ways. It seems to me you have some existing housing, Congressman, that has to be dealt with. It's not that I mind, but let me tell you, it hurts to have to come up with State funds to rehabilitate federally financed public housing in my State, and that is what we have had to do. Now we are going to do it, if we have to, because I am not going to stand by and let people live in places that aren't fit for people. But we also have had an ongoing State public housing program, both for the elderly and for families, over the years, and we've got some responsibilities to modernize and rehabilitate and upgrade that housing, and we've tried to carry that out. We are now spending millions of dollars in Massachusetts simply to rehabilitate existing Federal housing, which is occupied and which is important, and which provides decent housing for a lot of families at relatively low cost.

It seems to me there ought to be some ongoing responsibility at the national level, at the very least, to provide funds which make it possible for us to maintain and upgrade those Federal housing developments.

Mr. ROEMER. Let me interrupt you there and tell you that one of the debates last year and the year before was given limited dollars, whether we should put it into rehabilitation of existing units or whether we should—

Governor DUKAKIS. I know that.

Mr. ROEMER. You know that debate. If money is limited, what would your preference be? I just heard you say rehabilitate.

Governor DUKAKIS. It seems to me that if money is limited, you begin by making sure that the units you've got are decent and fit for the people that live in them. I would hope we could go beyond that, but that, it seems to me, is fundamental. The second thing is what to do with 236, 221(d)(3) housing and those two generations of housing for families of moderate income that now are up against the expiration of mortgages and, in effect, the conclusion of that period during which they were being provided with special help from the Federal Government. I mean, I am very, very concerned that we're going to face an increasing number of developments that

provide some very good housing in my State and other States across this country for families of low and moderate income.

How do we deal with that? Can we do it in a way that is creative, that is imaginative, conceivably provides opportunities for ownership as well as rental to some of those families, but make sure that we don't suddenly find ourselves with thousands of families that are being displaced because they can't possibly afford alternative housing, and there is no such alternative housing.

Now if we can deal with those two very basic needs, and it seems to me that is an ongoing responsibility for both of us, then, to the extent that we can find additional resources, and we must have additional resources, I would strongly urge greater flexibility, more block granting to the States—I think we are ready. I think we are ready for the kind of flexibility that a housing block grant program would provide us.

But it does seem to me that at the very least, there is some national obligation to deal with existing units which were built, in the first place, with Federal funds, and again, we don't shrink from the notion that we should participate with you in helping to preserve and enhance and strengthen the quality of that housing, but it is very tough when—I mean, my hope is that before the next month or two is out, I will be signing my third major State housing bill in 5 years and a substantial portion of the last bill, and I suspect this one, even more than last time, will go solely to rehabilitate deteriorated Federal public housing in our State.

Mr. ROEMER. I appreciate the answer. We had, once again, over the last 5 or 6 years, an ongoing debate in the committee over the question of block grants. There were some on our side of the aisle that it was a wolf in sheep's clothing, that it was an excuse to do away with the old programs. This territorial imperative becomes very frustrating around here. The world changes; we don't. But I hear you saying that rather than earmark the funds A, B, C, you would prefer the block grant approach and allow you to tailor its needs for Massachusetts.

Governor DUKAKIS. So long as those two very important areas of existing housing are dealt with, and it does seem to me that there is a responsibility on the part of the Federal Government to do that, and where appropriate, and to the extent that resources are available, if you can help us with the kind of rental assistance, section 8 certificates, whatever, that make it possible for those young families to take advantage of the kind of mixed income housing that we are building, that too would be very helpful, but I count that as being part of a more flexible approach to existing housing.

Let me say this also. Times change and States change. I think the States these days are much more capable of doing this job than we were 10, 12, 15, 20 years ago. I don't think there is any question about it. I am not sure, if I had been here a decade or a decade and a half ago, I would be saying what I am saying to you today, but there's no question these days that governors and State legislatures and States, generally, are more strongly committed to this kind of thing. We are willing to do it, have the know-how to do it, and we are prepared to do it, but I see this, Mr. Chairman, as a partnership in every sense of the word, where we work together, we col-

laborate today in developing the legislation and proceeding to develop the housing.

Mr. ROEMER. Fair enough. My final question has to do with your SHARP Program. In reading your numbers, and I will read it back to you. It says "SHARP averages \$1500 per unit per year for 15 years, reducing itself to zero at the end of 15 alone, for a total outlay per unit of \$22,500.

Governor DUKAKIS. Right.

Mr. ROEMER. Why is that so much more cost effective than, for example, your section 8 comparison? How can you do per unit for \$22,500—

Governor DUKAKIS. As compared with \$300,000?

Mr. ROEMER. Yes. Is this the new math or—[Laughter.]

Governor DUKAKIS. No. I'll let Secretary Anthony explain it to you, except to say that we have been able to work with developers, both profit and nonprofit, who apparently are doing so well on the nonsubsidized portion of their developments that they are willing to do some internal subsidizing, so long as we can provide them with this important marginal help that makes it possible for them to do it on a mixed income basis. And they have been terrific, and we have had a very, very good relationship with them, and I can tell you, we have—well, let me have Amy tell you just how many folks are lined up at the door who are ready to go with additional housing, if there were additional SHARP subsidy funds.

Mr. ROEMER. I would like to hear it.

Ms. ANTHONY. The program works to reduce the interest rate to the developer in an amount which decreases over a 15-year period. It is a spur to production and requires that a portion of the units be set aside for low income households.

Mr. ROEMER. What portion?

Ms. ANTHONY. Twenty-five percent, at a minimum, although the program has averaged around 35 percent. It has enabled that marginal difference between is possible to be done and what it takes to build the housing. It has written down interest rates down to approximately 5 percent and is done as a loan, so that it can be repaid in the future.

Mr. ROEMER. So the State's only give up is the difference between the cost of money and 5 percent?

Ms. ANTHONY. Yes, although we also use the State's Rental Assistance Program as a backup to assure that low income households will be able to occupy the units.

Mr. ROEMER. Is there a premium for the developer in going beyond the 25 percent?

Ms. ANTHONY. There is priority for going beyond the 25 percent. There is a priority for having family units. It should be noted that the program also qualifies developers for a special comprehensive zoning permit that often allows for greater density than otherwise would be available, which is another way in which costs are saved.

Mr. ROEMER. So the developer would obtain, perhaps a site not otherwise available, perhaps. The developer would obtain perhaps density in use of site not otherwise available. The developer would obtain a reduced cost of funds for construction. In return, he would give the State and its citizens a mixed construction, in terms of economic ability to pay.

Ms. ANTHONY. That's right.

Mr. ROEMER. Thank you.

Governor DUKAKIS. Congressman, let me add that I would be very concerned if we went much beyond 35 percent. In fact, I would prepare to settle in at about 25 percent. I think it is very, very important that this notion of a mix of incomes and economic status, and so on, be maintained. In fact, that is something which we first began doing back in my legislative days in the mid-1960s, and it has worked very, very well.

Now in some cases, if we can get a developer or builder to do better and go up to about a third, obviously, we will work with that developer, but I think it is very important that we maintain balance, and typically, in that 75-unit former high school I talked about, there are low, moderate and market rental units. It is a terrific development. People are living together in harmony. About 20 of those units—19—are available for low income. Another—what, Amy—25, maybe—in the moderate range, a little more, and then the rest at strict markets rents. People seem to be happy. It is a very, very fine example of good housing, and it works well.

Mr. ROEMER. Well, I am impressed. I appreciate it.

Chairman GONZALEZ. I wish to pursue that thought, and I am going to ask unanimous consent that the gentleman from Louisiana be granted an additional 3 minutes.

Mr. ROEMER. I yield to the Chairman.

Chairman GONZALEZ. The gentleman has raised a question that we have confronted perennially. But I think the important thing to keep in mind here, Buddy, is that given in this report here from Massachusetts, you had 75 units total. The average subsidy per unit is \$22,500. But of the 75, only 19 were for low income units, which then averaged a subsidy of \$88,800, which is a mix of your section 8 and the other.

Mr. ROEMER. It's still a lot lower than 300 grand, though, Mr. Chairman.

Chairman GONZALEZ. No, because the section 8 is over a 30-year period.

Mr. ROEMER. Oh, I got you. OK.

Chairman GONZALEZ. So that if you factor in all the figures you get the whole situation. It is just that I want to be fair all the way around. I wasn't one of those that was enamored with section 8 programs to begin with, for that reason.

Mr. ROEMER. I'm not accusing you, Mr. Chairman. [Laughter.]

Chairman GONZALEZ. All right. So the section 8 subsidy, on a 30-year basis, would be \$195,000, more or less. So that the real figure here, total, would be \$283,000 subsidy on that long-term basis. So that actually, when you factor in the length of your extended section 8 subsidy, it isn't that remarkable a difference in cost of subsidy.

Mr. ROEMER. Are you saying, Mr. Chairman—if you'd yield back to me—

Chairman GONZALEZ. Certainly.

Mr. ROEMER. Are you saying that you think the dollar figures are comparable and the program might be attractive because it is happening?

Chairman GONZALEZ. Yes.

Mr. ROEMER. Because you get a mix?

Chairman GONZALEZ. That's right.

Mr. ROEMER. OK.

Chairman GONZALEZ. Yes, sir. That's the great value if this.

Mr. ROEMER. OK. Thanks.

Chairman GONZALEZ. Now, I don't know, you may not agree with my figures, so feel free——

Governor DUKAKIS. I think we would come up with costs that are somewhat less, Mr. Chairman, and we would be happy to do that analysis for you.

Chairman GONZALEZ. OK.

Governor DUKAKIS. But the point that I want to make and that is reinforced, I think, by this discussion, is that there really is an enormous willingness out there on the part of people in the private sector, the nonprofit sector, and otherwise, to be part of this, to contribute something. The same is true of communities, of nonprofit organizations. I don't know whether it took 5 or 6 years for the Nation to understand just what was going to happen, if we withdrew from this area or what, but my sense is, today, that there is a very strong willingness to be a part of it, to make a contribution, and for us it has been a very successful effort.

We will be happy to submit some figures to you, and I think——

Chairman GONZALEZ. I, for one, would be very grateful if you did that, if you have the time.

Governor DUKAKIS. We would be happy to do that.

Mr. ROEMER. Governor, did you follow the calculations that the chairman just outlined?

Chairman GONZALEZ. Yes. We will also provide that for you.

Mr. ROEMER. OK.

Chairman GONZALEZ. Our analysis.

Governor DUKAKIS. We will do an analysis for you and get back to you with some numbers.

Chairman GONZALEZ. The staff—incidentally, Mr. Gerry McMur-ray is the Staff Director and the Staff Counsel is Ms. Diane Dorius, and Ms. Caldwell here, Ms. Garcia and Mr. Valencia are also all staff members and over on this side here we have—I think he is a Massachusettian.

Voice: Rhode Island.

Chairman GONZALEZ. Well, OK. [Laughter.]

Governor DUKAKIS. Almost, Mr. Chairman.

Chairman GONZALEZ. Yes. Mr. Ventrone, Joe Ventrone.

Governor DUKAKIS. Mr. Chairman, let me also say to you that we have a number of developers now who are really setting aside a certain number of units for affordable housing and doing so with a kind of internal subsidy, as a condition for getting permission to build. And Congressman, they are doing that, but they are getting lots of encouragement from us, occasionally, some help, and that, too, is making it possible for us to begin to move on this. So the kind of help we are getting comes from a variety of sources.

I think, Congressman Garcia, that in New York, a rather large number of private developers said, we'll built this at cost; right? The city's been having some difficulty getting moving on it, but I think it's another example of this thing.

Chairman GONZALEZ. You are absolutely right.

We went to Mr. Garcia's district, where you had on one side of one street a burned out section then on the other side what had been formerly the same was suddenly beautiful single family dwelling units that little, average, hardworking families were buying at a most reasonable rate.

Governor DUKAKIS. Yes, sir.

Chairman GONZALEZ. There you had a priest, Father Jagunti, taking the leadership to rehabilitate. He used some volunteer skilled work. He used some contractors and builders that came in and helped. Then he used young unemployed labor there, which I thought was the most beautiful thing of all.

What you have done in Massachusetts is perhaps a little bit more refined and skillful, but we have seen it before. We have gone to California and have seen how the rural Section 523 Technical Assistance Program enabled young families to build their own home, with their own labor through grants which we have been fighting to safeguard.

We have seen what the American people can do, and they are there.

And you are right, what they really have been clamoring for is leadership, and this is where I hope you will come in and transcend the purely local.

In any event, we next recognize Mr. Swindall.

Mr. SWINDALL. No questions.

Chairman GONZALEZ. Thank you, sir.

Mr. Kennedy.

Mr. KENNEDY. Thank you, Mr. Chairman.

First of all, I thought half of this might have been a TV ad for the Governor's next campaign maybe. [Laughter.]

Chairman GONZALEZ. Well——

Mr. KENNEDY. If it isn't, it should be.

Chairman GONZALEZ. Oh, you mean he is running for reelection?

Mr. KENNEDY. Whatever he runs for.

Chairman GONZALEZ. I thought he had been elected.

Mr. KENNEDY. Governor, many of the programs that you have talked about are extremely innovative and creative in terms of taking existing resources and packaging them together in such a fashion as to get the lowest cost units down to the folks in the greatest need, and on the one hand that is something that we could spend a lot of time talking about.

Your approach, I think, sounds as though what you would like to do is see those funds, whatever funds the Federal Government can generate get out to the States to allow them to be adapted to the local need.

My real question is if you could comment a little bit, after taking a State that has had its own \$500 million—the chairman comes from a State which now has a billion and a half dollar a year deficit. We are talking about a Federal Government that has a—

Chairman GONZALEZ. Yes. Well, it depends on who is counting.

Mr. KENNEDY. Well, it is sort of like the Federal Government, right?

Chairman GONZALEZ. Well, but, see, Texas being Texas, when I was in the State Senate, I tried to argue that the day of reckoning would sooner or later come because we have always boasted about

going on a cash on the barrel head, and now they don't know what to do because they want to avoid a personal income tax.

But it depends on who you are listening to, whether it is \$1½ billion or \$2½ billion.

Mr. KENNEDY. In any event, they are big dollars as far as the ordinary American is concerned.

And I think what you have up on the wall over here is some notion of the differentials, the differing priorities in terms of the Federal dollar, where it is spent, and I just don't know whether you might comment a little bit about how you take a division of a nation, show how economic growth can really prosper, and maybe talk a little bit about how our dollars are being utilized at the Federal level today versus maybe some of the priorities that you might view as being able to allow us to have a really good future for our children, in particular, to look forward to.

Governor DUKAKIS. Well, thanks, Joe. Let me try to comment very briefly.

Obviously, the best way to get the resources you need to do the things that you want to do and must do is to have a strong and healthy and vibrant and growing economy. If our unemployment rate today was 5 percent, the deficit would be reduced by \$50 billion just by virtue of that fact, and that gives you some sense of just what economic growth does.

As you know, our State has an unemployment rate of 3.5 percent. We have had a very healthy fiscal situation. It has given us the resources to do some of these things.

I don't know how a Louisiana or a Texas or an Iowa or States that are hurting the way those States are could possibly be expected to provide for the housing needs of families of low income when they are struggling just to meet existing levels of support for things that they consider important, and one way or the other it seems to me that as a nation we have got to be prepared to step in, especially in the case of those States and regions of the country that are hurting, to help them rebuild their economies, to help them diversify their economic base.

In most of these States it is a single resource, a single crop, a single industry that they have depended on for many years, and those industries are now in trouble and they are in trouble financially.

But if we don't appreciate as a nation that we are interdependent and that our continued success in New England depends on the health of a Louisiana, a Texas, an Iowa, whatever, then we don't understand what has made this country what it is and what is going to make it great in the future.

Now, how we divide that Federal dollar and whether or not we add more resources and what we do with them is a question that the Congress has been wrestling with for a long time.

My own feeling is that the national defense and the security of this country depends at least as much on decent housing and good jobs for people and a strong economic future as it does on military hardware. I am not suggesting that we don't need military hardware, but we have to strike a balance.

In these days I have to tell you I don't think we are striking that balance, not when we have got hundreds of thousands of homeless

citizens and families out there living in the streets of our cities and towns, and we have got to do something about it, and my hope is that working with you and a new Congress that understands and appreciates just how important these domestic priorities are we can do that while working with those States and regions that are hurting economically to help them turn themselves around and once again be part of a very strong economic future.

I believe we can do these things, and I can tell you this, that, Joe, we would have never dug ourselves out of the pit that we were in in the middle 1970s in Massachusetts without some substantial Federal resources that you were providing, especially to our older urban community.

Lowell never would have happened if it had not been for the kinds of resources that were available at that time, and I could say that for every older urban community in our State.

Today we don't have any depressed urban communities, but that is because there were substantial resources at a time that we needed them, many of which were Federal, and we made good use of them.

Well, now it is rural and small town America that are hurting, and it seems to me that in those cases we have got to do the same thing.

Mr. KENNEDY. I think, Governor, you have done a tremendous job in bringing Massachusetts along. If the Nation can look forward to any of those programs being developed on a national level, it seems to me that we have a lot to look forward to, particularly if we can get the kinds of creative—and I would just like people like Buddy and the chairman to know that really we have just talked about the tip of the iceberg in terms of all of the various programs that Massachusetts has generated over the course of the last few years.

I remember in the campaign that I just got through, Mr. Chairman, somebody would ask you what your housing position was and it would take you 10 minutes to answer the question just to list all of the programs that the State has initiated over the course of the last couple of years, or, you know, more than that actually.

So that I think it is important to spend the time talking about how to leverage dollars, how to get the Federal Government actively involved in solving and building more housing units.

As Amy suggested, we also ought to be dealing with the fact that I believe 7500 units this year are being slated to be lost in our State alone in terms of the expiring use on 236 and other issues that we will be taking up in this committee in the future and would look forward to any innovative ideas that you might have in terms of trying to negotiate with those landlords to get them to continue to keep the units that they have got in the hands of the low income.

Governor, I thank you very much for your time. I know you have got lots to do, but you have been terrific to come here and provide us with your ideas.

Governor DUKAKIS. Thank you. I look forward to working with you, Joe.

Mr. KENNEDY. Thank you.

Chairman GONZALEZ. Yes. Mr. Roemer.

Mr. ROEMER. Governor, you talked about the Federal Government being an important catalyst or source of funds as you turned it around as a State.

What percentage of your budget comes from the Federal Government as a State? Do you know?

Governor DUKAKIS. Congressman, I ought to be able to tell you that, and I can't off the top of my head, but I will get you those figures.

Mr. ROEMER. OK.

Governor DUKAKIS. Most of our Federal assistance today, though, as you know, is Federal matching for welfare and Medicaid and those kinds of things. I mean, I would guess that that would be the highest percentage.

What was available to us in 1974 and 1975, when we had the second highest unemployment rate in the Nation and we were in very, very desperate shape, however, were some focused, targeted funds that we could use, especially in our older urban communities, which were the places that were severely depressed, to begin building those public/private partnerships, turning things around, and getting those communities on the move again.

And I cannot emphasize to you too much how critical it was to have those funds. Now, we have our own State UDAG Program. We call it the CDAG Program. We are in a position to help in ways that we couldn't have in the mid-1970s, but those resources at that time that were available for distressed communities and distressed States were just critical to us, in my judgment, and one of the obligations of national citizenship is to respond to those kinds of needs everywhere, but these days to work closely with the States because I think we have a greater capacity to do things than we did 10 or 15 years ago, and that is true whether you are talking about housing, economic development generally, or any of the things that go into turning around a distressed economy.

Mr. ROEMER. Good. Thanks, Governor.

Chairman GONZALEZ. Well, thank you again. I know that you are anxious to leave, but I think the record ought to have a little discussion as to how you account for the fact that Massachusetts, which was sunk in a depression not too long ago—I remember Lowell, for instance, which was the original Industrial Revolution site in our country—

Governor DUKAKIS. That is right, Mr. Chairman.

Chairman GONZALEZ. Very deep in depression.

Now, how do you account for the upswing and the fact that you yourself said if you didn't have the margin of employment that you have, you couldn't have the income obviously, but how do you account for that since you had a high rate of unemployment and now you don't? What do you attribute that to?

Governor DUKAKIS. Inspired political leadership, Mr. Chairman. [Laughter.]

There is no other answer.

Mr. ROEMER. That is why I didn't ask him the question, Mr. Chairman. I knew what the answer was.

Chairman GONZALEZ. Enough said.

Governor DUKAKIS. I think that was a part of it, but I also have to say to you—and I am simply repeating what I said a minute ago

in response to Congressman Roemer—that the resources that were provided to us by the Congress of the United States and administrations of both parties—because the Ford administration and the Carter administration both were working with you to make that commitment, in that case to older urban communities at the time because that is where the distress really was so severe in Massachusetts—those resources along with our own efforts and the participation of the business and labor and educational and other communities were fundamental, and that is why, Mr. Chairman, it seems to me, that both housing and economic development block grants to States that are in deep trouble today are part and parcel of what we ought to be doing.

I can tell you that they will return revenue to the Federal Treasury manyfold in the form of a strong and vibrant and growing economy, and we certainly—our exhibit 1 proves that.

Today our unemployment rate, as you know, is 3.5 percent, and we have a very strong fiscal base, and the Lowells of this world are great urban success stories, but it would have not happened without your support and without resources that you provided us.

Chairman GONZALEZ. Well, thank you very much, Governor. We are in your debt, and we are deeply grateful to you and your Secretary, Ms. Anthony.

Governor DUKAKIS. Thank you for having us, Mr. Chairman.

We will get you that information and those analyses, and we look forward to working with you.

Chairman GONZALEZ. All right, sir. Thank you very much.

Governor DUKAKIS. Thank you.

Chairman GONZALEZ. Thank you very much, Joe.

Mr. KENNEDY. That was excellent.

Chairman GONZALEZ. Very good.

Our next panel consists of the Honorable David C. Schwartz of the New Jersey Legislature; Mr. F. Lynn Luallen, Executive Director of the Kentucky Housing Corporation and President of the Council of State Housing Agencies; and Mr. William B. Eimicke, Commissioner of Housing and Community Renewal for the State of New York.

And I had been asked and I am going to recognize Mr. Saxton to introduce his constituent, the Honorable David C. Schwartz.

Mr. SAXTON. Actually, Mr. Chairman, it is indeed an honor, and I thank you very much for giving me the opportunity to introduce Mr. Schwartz. But knowing Dave as I do, as good friends, I am glad he is not my constituent because that would make him a potential opponent, and I wouldn't want that. [Laughter.]

Chairman GONZALEZ. Oh, I don't know about that, but thank you very much.

Mr. SAXTON. Mr. Chairman, Dave and I have been colleagues in the New Jersey Assembly from 1977, when he was first elected, until 1984, when I left, and I know Dave not only as a legislator but as an individual, and it makes me very proud to be able to have this opportunity today, knowing of his record in the New Jersey State Legislature.

It is most appropriate that he is here today because he was the chairman of our State Assembly Housing Committee from 1981

until 1985, and with a background as a professor at our State university, he served very, very ably in that position.

He is the author of New Jersey's major housing legislation, which took place during those years and since those years under a Republican Speaker in that Legislature.

He has had a wide range of involvement in housing issues, issues such as financial assistance for new construction as well as rehabilitation of existing substandard units, rental assistance for low and moderate income families, down payment assistance, and interest buydown programs, as well as programs for the elderly and handicapped citizens and financial assistance to local government and nonprofit housing sponsors.

So, Mr. Chairman, I think it is most appropriate that Dave is here today. We have much to learn, I know, from what States have done.

Dave, we are interested not only in your reaction to proposals which are here before this committee, but we are equally interested in what you can share with us in drawing on your experience as a very, very successful State legislator and one who has been involved in issues in my home State.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you very much.

We recognize Mr. Garcia.

Mr. GARCIA. Thank you, Mr. Chairman.

I would just like to take this opportunity as well to introduce Mr. Bill Eimicke, who is the State of New York's Housing Director.

I welcome him for being here, but I would just like everybody to know that New York has truly been a pioneer of innovative low income housing and affordable housing programs for low income families.

In 1985, the State Legislature, Mr. Chairman, enacted legislation creating the Affordable Housing Corporation with an initial appropriation of \$25 million. The program makes grants available to municipalities and not-for-profit groups who in turn use the grants for loans, payments and grants to eligible individuals, and since the corporation's creation over \$47 million have been committed by the State alone with other public and private funds to finance construction, rehabilitation, and improvement of approximately 8000 units statewide, and as of last October 91 new projects were funded.

The program was specifically created to make home ownership a reality for low income families that could not otherwise afford to purchase a home. As you said before, Mr. Chairman, the Nehemiah Program has been a success in New York, but it is really close to impossible, as you know, for any State alone to provide all the housing that is needed. They truly need the assistance of us here in Washington.

The number of homeless families is growing, and one of the fastest growing groups of homeless are female-headed households, and if we don't do something here in the Congress to act we will continue to put men, women, and children on the streets.

But I would just like to say on a personal note to Mr. Eimicke and the two other members who are here that I felt like this was a Presidential campaign, and you fellows came in to sit down and ev-

everybody left, and I said to myself, my God, maybe Dukakis is really running for President because he certainly has a large entourage.

But we truly appreciate all of you being here, as far as I am concerned, because I can speak from our experience in New York. We have done some with what we had. There is a lot more that has to be done.

But Mr. Eimicke, Mr. Chairman, has always been one who has been very cooperative. You pick up the phone, you call him, and you get a response, and I am delighted that he is here.

But I would like to say to Mr. Eimicke—and that is why I have sort of jumped out of place—is that my subcommittee is meeting with Senator Sarbanes of the other side in about 10 minutes to discuss some legislation that we have. I am Chairman of one of the committees of the Banking Committee now, and so I am going to try and get back here for your testimony.

But I want you to know that on behalf of all of us in New York State we are deeply appreciative for all you have done for us.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you very much, Bob.

Gentlemen, if any one of you has a time problem, you know, such as airplane schedule or something, let us know and we will try to recognize you first. Otherwise, I will just follow the schedule as it was given to me and recognize the Honorable David C. Schwartz of New Jersey and will say that you may proceed as you see best.

You may wish to introduce for the record your prepared statement and then summarize, or you may wish to read your statement.

But we recognize you at this point, and thank you for accepting our invitation to testify.

STATEMENT OF HON. DAVID C. SCHWARTZ, NEW JERSEY LEGISLATURE ASSEMBLYMAN

Mr. SCHWARTZ. Thank you very much, Mr. Chairman.

I am deeply honored by your invitation to speak to you and with you and with all of the Members of this distinguished subcommittee on the subject of housing policy and of pending housing legislation.

I want to thank Jim Saxton for his kind introduction and acknowledge the fact that at various points during this day the aide to my own Congressman, the Honorable Bernard Dwyer, Democrat of New Jersey, has also been with us.

I come here, Mr. Chairman, this day to describe the States' response to the housing crises of our time, a response wherein the States have adopted or enacted more than 120 separate new major housing programs since 1980. My testimony will summarize some of the major policy thrusts embodied in these programs.

But I come here also to ask that you adopt a new Federal housing policy, a sweeping new policy, a bold but prudent new joint Federal/State policy, a policy that will be supportive of what the States have been doing and need to do, a policy that will be based in part upon some of the successful models that we at the State level have come up with, a policy which will help the States to join

together with the Federal Government in a full and robust partnership to improve housing.

Together, the Federal and State governments must work together to make sure that the American dream of owning a house does not become an impossible dream.

I suggest to you, Mr. Chairman and Members of the committee, that we need a new housing policy at this time because our present policies are clearly insufficient.

Home ownership is declining in America, and has been declining since 1980. The quality and affordability of rental housing in America is also declining in our time.

But homelessness, the national shame that Americans are living and dying in the cold streets and alleys and culverts of this Nation, that is not declining. It is burgeoning.

Our Nation is receding and our Federal Government retreating from the great goal of decent, affordable housing for our people.

Permit me to review with you just a little of the data on the decline in home ownership and on affordability of rental housing and a little bit on the burgeoning and poignant and tragic increases in homelessness in order to set the stage not merely for a description of the urgency of our crisis but to suggest some of the directions that our new policy must take.

First, American home ownership levels have been falling every year since 1980. Before then, as you know, Mr. Chairman, home ownership had risen steadily for 35 years.

For young families in America today, home ownership levels are now well below that of the 1970s.

Indeed, today the average family can no longer afford to buy the average American home. A family earning our Nation's median income of about \$28,000 falls short of the income needed to carry the mortgage on today's median house.

In 1959, that wasn't the case. In 1973, that wasn't the case. By 1983, we saw the average 30-year-old who had been paying 16 percent of his income for a house in 1959 or 21 percent of his income later in the 1970s, by 1983 that average 30-year-old young family man was paying 40 percent of his income in mortgage payments. Today in 1987, that 30-year-old is paying 44 percent of his income for housing.

While the costs of home ownership are perhaps most consequential in blocking achievement of the American dream for young families and first-time home buyers, the total cost of home ownership today has other negative consequences.

The foreclosure rate has nearly doubled since 1980. What I am saying, Mr. Chairman, is that millions of Americans can't buy a home and too many Americans can't keep the house they have got. We have got to do better. We need your help to do better.

Turning to rental housing, I think you know from listening to Governor Dukakis and from your own excellent staff reports that the rate of increase in substandard housing has increased dramatically while the affordability of rental housing has decreased precipitously, and what we have is a situation in which more and more Americans, almost 4 million Americans, are living in substandard apartments, and the pace of inflation is far outstripped by the unaffordability of rental housing.

What we see then is that we are going the wrong way. We have a situation clearly where we want to have more people living in standard housing. We are having less. We want affordability to go up, but it is going down. It is pretty obvious that we are going the wrong way.

But millions of Americans have no housing at all. Millions of Americans have no housing at all, at least no permanent private shelter. These are the homeless Americans.

No longer the stereotype drifter, the bowery bum, the mental patient, today's homeless are mostly families with children, functioning adults. They are a representative cross-section of our poverty population, their homelessness caused preponderantly by their poverty and by an absence of affordable housing.

What have the States done?

You called this meeting, Mr. Chairman, I know, to learn what the States have done. Let me say that the States, in my judgment, have responded to the limits of their ability, and with limited tax bases we have responded, I think, aggressively, assertively, imaginatively.

More than half of the States in the last 6 years have enacted or adopted one or more new major housing programs. My analysis of a recent compendium of State housing initiatives, which was published by the Council of State Governments, suggested that the States had adopted over 120 major new housing programs in the last 6 years, and that figure is obviously wrong. It is much too conservative because a number of States did not participate in that study.

I want to say to you, Mr. Chairman, that the States have adopted programs to meet at least 10 different housing needs. These include providing financial assistance for new construction of housing, providing financial assistance for the substantial rehabilitation of substandard existing units, granting rental assistance for low and moderate income families, expanding home ownership via down payments or interest rate buydowns, meeting the special needs of elderly and handicapped citizens in a variety of ways, providing financial assistance to local governments and nonprofit housing sponsors, the land acquisition and development, sheltering the homeless, and later I will speak, I hope to your interest, on preventing homelessness, a matter which in New Jersey we have done a great deal of.

Fifteen States have adopted housing trust funds since 1980, dedicating a permanent, stable, annually renewable revenue source to meet housing needs.

Ten States have adopted new programs to give planning assistance to local governments and nonprofits.

A number of States have experimented with regulatory relief in an effort to make housing more affordable.

The States have also sought new partners and many different revenue sources in their quest to cope with housing crises. The States have learned to deal with county and local governments more effectively, and we have gotten somewhat more sophisticated in working with corporations, foundations, builders, and nonprofit housing sponsors.

I think you will be impressed, Mr. Chairman, and Members of the committee, with the wide-ranging and diverse efforts we have made to use different revenue sources, our own money, our own tax revenues.

As I look at it, we have used general fund revenues, general obligation bonds, taxes on real estate title transfers. We have used offshore oil revenues. We have used casino taxes. We have used race-track revenues. Of course, we have used the traditional MRB and IRB bond capacity that we have had that has now been limited.

I can honestly tell you, Mr. Chairman, as I look at the array of taxes and the array of fees that the States have imposed upon themselves and their people in an effort to meet housing needs, it is almost as if I could tell you wherever they could find a buck they found it.

We need your help because we have been already good partners in seeking to diversify our revenue sources. We have gone far, far beyond the traditional MRB and IRB tax-exempt vehicles.

Mr. Chairman, this year or next States will issue taxable bonds and new housing securities previously unheard of in the securities market.

Not counting mortgage revenue bonds or other tax-free bonds, the States will have spent more than \$3 billion of their own money, and that is a very conservative estimate, of their own tax and bond revenues to meet housing needs in the 1980s.

What does this mean? What does all of this mean?

Surely not that the States can go it alone. With all of the effort, all of the imagination, all of the experimentation and several billions of dollars in State and local activities, Mr. Chairman, we are falling behind. We are falling ever further behind in meeting the housing needs of our people.

We need increased Federal involvement, but now after 6 years of State level innovation and experience, the States are, I think, ready to use Federal involvement in new and better ways.

The States, I may tell you also, will probably want to help to shape rather than just to implement Federal policy. I know—and Governor Dukakis was completely accurate in saying—that our Federal housing policy was in the driver's seat and the State housing policies were derivative. They were largely derivative from Federal policy until 1980. They are not derivative any longer. They won't be derivative in the future.

That is why I say to you that I am hoping that the Federal housing policy you will adopt, not only in H.R. 4, which I support, but in additional housing legislation to come, will in fact be based in large measure on what the States have done.

I am suggesting to you, at least in my judgment, Mr. Chairman, that the States seem ready now to be the full equal partners that the Federal Government ought to want. I am saying that with all of the last 6 years experience behind us, in my judgment the States are ready for a robust federalism on housing issues.

The statistics which I cited to you about what the States have done, however, my colleagues, do not really give the flavor of how we at the State level have been working on housing problems, and so I am going to take this opportunity, at least briefly, to do what

Jim Saxton implied I might do at the outset and tell you a little bit about what we have done in New Jersey.

I mean no chauvinism or New Jersey patriotism to say that I was deeply hurt, Mr. Chairman, when I heard you say that New York and Massachusetts were leading the Nation. I am hopeful that by the conclusion of my testimony we may have at the very least to add New Jersey to your pantheon of States that have done the right thing and need your help now.

First, in 1984, we created the New Jersey Housing and Mortgage Finance Agency, bringing all of the State government's operations in housing under one roof for the first time.

More than that, we gave that agency bold new powers. Traditionally, State housing finance agencies have principally been issuers of tax-free housing revenue bonds, a role that will be reduced as a result of Federal legislation last year capping the ability of States to issue these bonds.

But in our agency we gave them a vastly increased capacity to attract private sector capital to provide housing opportunities. The New Jersey HMFA can sell the traditional tax-free bonds, but it can also sell taxable bonds and sell stock in projects through its Housing Assistance Corporation subsidiary. The agency can also sell securities backed by the agency loan pools.

In short, we have given the State government a vastly enhanced ability to work with the capital markets of this Nation.

Beyond that, Mr. Chairman, we expanded the agency's array of housing programs far beyond traditional construction and permanent financing. The new agency can co-venture housing developments with private developers, participating in a shared equity or shared appreciation basis.

This means that the money that we lend to developers and private investors at somewhat reduced interest rates can be recaptured by the agency when buildings are refinanced or sold. The agency can receive a modest public sector profit. We make a little money for the taxpayer, and that is fair.

That money is available to be relent for new affordable housing projects. We think it is a prudent and effective use of public funds, one that makes sense because developers benefit from lower interest rate mortgages and they are being asked to do what?

They are only being asked to help out by giving a little of that profit back to the taxpayers. It is only fair that the public should make some money on the money that the public invested.

The agency also—our Housing and Mortgage Finance Agency—can act as a receiver of substandard properties, rehabilitating those properties and reselling them to tenant associations who are given technical assistance so that they can own and manage these properties.

That power was further enhanced by the Old Factories/New Neighborhoods Act which I sponsored, Mr. Chairman, which authorized the HMFA to work with cities and towns and neighborhoods interested in converting abandoned factories, and you know we have got abandoned schools and factories and warehouses all over America that aren't going to be schools or factories or warehouses again, but we could convert them to housing at 10 to 40 per-

sector, could produce 400,000 new units a year, 400,000 new, affordable, low and moderate units a year if you took the \$10,000 average subsidy that we are using in New Jersey.

Beyond the obvious benefits that that would have for home ownership and for housing the American people, it would be a wonderful thing for the economy of the States and Nation.

Let me say that I am deeply mindful of the time constraints on this committee, and with your permission, I will conclude my testimony just by naming the other points that I wanted to make you aware of in order to cede some time to my learned colleagues and because that testimony is already available and some members of your staff have already heard this more than once, and I don't think I want to burden you with it much longer.

I want to suggest that you take a look at individual housing accounts, like IRAs, or perhaps using on a one-time basis the invasion of the IRA that already exists without a penalty for doing that.

I want to suggest, also, that you give back to the States—and I know this is not your committee's exclusively—the right to do MRB and IRB's without those caps. I think we did a pretty good job over the years at very modest consequence to the taxpayer, very modest consequence to the Federal Treasury, and I think you ought to give us back that capacity. It is hard for the States to say we are going to have a wonderful new policy but we can't use even our traditional mechanisms.

Finally, I would like to suggest that we need a new rental assistance production program, and I think that could be funding through a Federal housing trust fund.

We need a old buildings/new communities act.

I think we need to restore favorable tax treatment to builders who will construct affordable apartments.

I think we need to commit ourselves to a decent and expansive Federal housing policy with reference to public housing and to the maintenance of the 236 and section 8 certificates.

And, finally, I want to say to you, Mr. Chairman, that with all of the great work that has been done and some of the major commitments of time, effort, and prospectively major money on the question of homelessness, it is not enough that we shelter the homeless, crucial as that is. It is just as important and, in my way of thinking, maybe more important to prevent homelessness.

I am going to submit to your staff, Mr. Chairman, our New Jersey Prevention of Homelessness Program and urge your serious consideration of it.

I thank you very much for your attention and your time.

[The prepared statement of Mr. Schwartz can be found in the appendix.]

Chairman GONZALEZ. A very great input in testimony. I have a few comments more.

Let the record show that I now wish New Jersey to be placed alongside of Massachusetts and New York, and I was thinking in terms of New York and Massachusetts, by the way, in terms of the volume of resources on the State and local level that had been diverted for housing allocations.

Mr. SCHWARTZ. Let me say, Mr. Chairman, that if you will look at the New Jersey State budget I think you will see that it compares favorably with those States.

Chairman GONZALEZ. Well, we will include it. Now, it is right there on a par. We have three leading States.

Besides, my daughter and son-in-law and two grandchildren wouldn't forgive me if I didn't include New Jersey because they live in New Jersey.

Also, just briefly, you were right, on some of your ten suggestions, a couple of them at least are not within our jurisdiction. They are over in the Ways and Means, and, incidentally, we were one of those that fought steadfastly to try to maintain the tax laws that permitted the States to do what they have done, you know, and had succeeded in doing.

But we didn't succeed there. The Ways and Means Committee, usually lost out when they went into conference with the Senate.

Well, thank you very much again, and we will come back.

I would like to announce that we have Ms. Marcy Kaptur from the great State of Ohio, and we will recognize her if she wishes to make a statement or ask a question at this point, then we will proceed with the two witnesses because they have been waiting here.

Ms. KAPTUR. I think that is a good idea, Mr. Chairman, to hear the other two witnesses first.

Chairman GONZALEZ. Thank you very much for being with us.

Mr. Luallen, thank you for your patience, and we recognize you now.

STATEMENT OF F. LYNN LUALLEN, EXECUTIVE DIRECTOR, KENTUCKY HOUSING CORPORATION AND PRESIDENT OF THE COUNCIL OF STATE HOUSING AGENCIES

Mr. LUALLEN. Well, thank you very much, Mr. Chairman. We of the Council of State Housing Agencies do appreciate this opportunity.

I will keep my remarks brief and focused on what we believe to be the substantive issues that must be included in future housing bills, and I do ask that my written statement be included in the record in its entirety.

Chairman GONZALEZ. Yes. Without objection, your written statement as well as Mr. Schwartz will be included in the outset of the testimony in their entirety.

Mr. LUALLEN. Thank you very much.

Over the past 19 years State housing finance agencies have provided the financing for over 790,000 single family home purchases, and the private sector construction or rehabilitation of over 650,000 rental units, 384,541 of which were built with direct Federal subsidies.

The recipients of this housing are substantially low and moderate income first-time home buyers or renters. Over half of our inventory relies upon the Federal dollars that this committee controls. If we are to continue to produce low income housing and if our existing portfolio is to remain part of the low income housing stock, continued funding of several of these programs is vital.

First, let me state that we are unequivocally opposed to the privatization of FHA. As agencies that actively encourage home ownership for low and moderate income households, State housing finance agencies are keenly aware of the advantages of FHA insurance.

I refer you to my written statement, which explains these advantages in detail and points out that the following administration recommendations will have a crippling effect on State housing finance agencies' financing.

One, increasing the FHA mortgage insurance premium from 3.8 percent to 5 percent of the loan amount.

Two, regulatory changes disallowing the financing of closing costs on FHA loans.

And, three, increasing the FHA guarantee fee from 1 percent to 2.5 percent of the loan.

Also, with respect to low and moderate income home ownership, we would like to call the attention of the committee to the Nehemiah plan, which has been discussed here so eloquently today, as a very effective tool used in New York City. We urge that this committee consider the nationalizing of the Nehemiah concept.

As important as home ownership is, there are sectors of our society for whom it is an impossibility. This body has already acted responsibly in passing the Emergency Relief for the Homeless Act, and we applaud you for that. We submit to you, though, that if authorization for our rental housing programs is not made the homeless problem will be exacerbated.

The after tax reform low income housing picture is murky at best, Mr. Chairman, yet one point remains clear. The importance of such programs as the HODAG, CDBG, and UDAG are enhanced by the diminished Tax Code incentives.

My written statement details one example of these programs at work. It is a common example that can be illustrated in any State in our union, and shows that the funding of these programs must be continued at least at current levels.

The issue of retaining existing stock as low income housing is one that of late has moved appropriately to the forefront. Members of this committee in particular continue to provide leadership on this issue.

According to the June 1986 General Accounting Office study, there are 164,000 units of section 236 insured and assisted units that could prepay their mortgages and be lost from subsidized housing inventory by as early as 1995. While CSHA is still gathering data from its membership, we believe that a significant number of uninsured section 236 assisted units will be reaching a similar position within this timeframe as well.

The fact that uninsured State agency finance projects were generally subjected to a more stringent underwriting criteria increases the potential that these projects will be attractive to the market, thereby increasing the number of low income units lost.

To avoid this consequence, we hope this committee will formulate a comprehensive approach which would include:

One, economic incentives for existing owners, targeted utilization of existing HUD resources, and inducements for potential purchasers, including the new income housing tax credit.

In particular, we support the creation of a multi-family housing preservation fund as proposed by Representative Frank, and we further suggest the DeWilde pool funds be released immediately for the expanded group of purposes suggested in my written statement.

We also urge sufficient funding for the rental assistance payment, flexible subsidy, and the rent supplement programs so that current contracts can be met.

Last, in those instances where owners decide to opt out, the affected tenant must be protected. His existing certificate should be available. At a minimum, the budget authority remaining in the contracts must be recaptured and reused for tenant protection. Liquidating budget authority in these situations is unconscionable.

Another crucial issue that must be addressed by your bill is that of the administrative fees paid to agencies that administer Section 8 Programs. We applaud those sections of H.R. 4 which reinstate these fees at their former level and urge this body to steadfastly support the inclusion of such a provision in a final bill. The alternative would be an increasing number of agencies which would find it infeasible to administer these programs.

On the issue of fair market rents, we respectfully request that Congress instruct HUD to improve and publish in a timely manner their annual market studies which determine fair market, fair rent levels. The data should reflect local conditions and be used as guidelines.

Further, it is imperative that if these studies indicate a market reduction in fair rents, that already set rents be held harmless from a reduction. The economic reasons for this we believe to be obvious.

The issue of comparability of section 8 rents to prevailing market rents must be addressed as well. It appears to be a HUD objective that comparability and rent rollbacks be achieved on a national scale regardless of the financial impact to the projects involved.

The goals should be, sufficient cash flow to meet economic necessities and the limited return allowed by the program. We ask that the Congress order HUD to work with the housing community to establish a fair, financially viable procedure to minimize arbitrary reductions based upon nonstandardized subjective methodology. Major consideration for housing authorization should be given to programs devoted to housing our Nation's elderly. Of the 3.5 million elderly living at the poverty level, 70 percent are home owners. They are, for the most part, house-rich and cash-poor.

H.R. 4 responds directly to this problem with its demonstration home equity conversion insurance program. We wholeheartedly support this concept. Several of our State agencies have ongoing equity conversion programs in place, and they provide the impetus for a detailed response to your proposal continued in my written statement.

Another valuable elderly housing initiative is the section 232 board and care home mortgage insurance program. We ask that its funding be reauthorized at current levels. In addition, we urge Congress to work with experts in the field to improve the program, so as to insure its development into a successful housing alternative.

While CHSA supports the concept of a congregate housing services demonstration program, we would like to request a change.

Under the current program, State housing finance agencies who finance congregate housing projects are unable to participate in the CHSP Program. As a major financier and provider of congregate care, our membership requests that the availability to this demonstration program be granted to State housing finance agency financed projects.

In addition, we propose that a task force be formed that would include Members of Congress, the Council of State Housing Agencies, the National Association of State Units on Aging and others that would work to convert this demonstration to a national program funded at the Federal level with appropriate incentives for State financial participation. Such a program would be available to all HUD-assisted projects for the elderly, including HFA-financed projects. We believe that a Federal congregate housing services program with standard models, administered at the State level by the two agencies most experienced and knowledgeable in the field of housing and services will produce results that could not be achieved by a fragmented program administered directly by HUD.

With the ground work already done by CSHA in NASUA, a program could be designed and ready for implementation in fiscal year 1989.

Mr. Chairman, in conclusion, and we do thank you for this opportunity, we believe that State housing finance agencies have shown, over time, to be a strong public purpose housing delivery system for the low and moderate income individuals and families in this country. I hope that you and the committee will take our history and this testimony to heart, and we want you to know that we are available to spend any time you need from us with you on these housing matters.

Thank you very much.

[The prepared statement of the Council of State Housing Agencies presented by Mr. Luallen can be found in the appendix.]

Chairman GONZALEZ. Well, we thank you again, Mr. Luallen. You have cooperated with us through the years tremendously, and your statement, you can rest assured, it is taken seriously, and it has been looked over and considered, and it will continue to be. It is very valuable, let me assure you. And it strengthens us to keep going ahead. And of course, you know that we have two from the State of Kentucky that are Members of this committee.

Mr. LUALLEN. Yes, sir.

Chairman GONZALEZ. And they have been very helpful. This time, we got Mr. Hubbard to join our subcommittee for the first time. He had not been able to get on Housing before. It is a very much sought after assignment and had reached a point where, as of last year, this was the largest subcommittee in the whole Congress. There were only about eight or nine Members of the full committee that didn't belong to it. The reason is that the importance of the programs under the subcommittee's jurisdiction have increased significantly through the years but also, unfortunately, these programs have been the target of 80 percent of the thrust of the Reagan budget cuts in the last 6 years.

Mr. LUALLEN. Yes, sir, we are aware of that.

Chairman GONZALEZ. Yes. So you know, this is very valuable, because you have synthesized the situation admirably, and we are very grateful to you.

Well, we will proceed with your next witness and thank him for his patience, Mr. Eimicke.

**STATEMENT OF WILLIAM B. EIMICKE, COMMISSIONER OF
HOUSING AND COMMUNITY, STATE OF NEW YORK.**

Mr. EIMICKE. Thank you, Mr. Chairman.

Let me begin by bringing you greetings from your good friend up in New York, Governor Cuomo.

Chairman GONZALEZ. Thank you very much. Oh, excuse me. I did today receive a letter, accompanied with some extensive material, in which the Governor again pledged his help, and wanted us to know that he was very glad that he could have been with us recently, but that he wanted to pledge his continued cooperation and for us to let him know what he could do that we might suggest. So I wanted to ask unanimous consent that Governor Cuomo's letter be placed in the record following your testimony, plus selected material from the material that he sent me. But thank you for your good wishes. He's a great man and a good friend.

[The materials discussed can be found in the February 4, 1987, hearing entitled "Urgent Relief for the Homeless Act"].

Mr. EIMICKE. Yes, he is. And if we can provide you any additional information on those materials which we prepared, we stand willing.

Chairman GONZALEZ. Thank you very much.

Mr. EIMICKE. I also have submitted written testimony, Mr. Chairman, and in the interests of time and respect for you and your staff, who have shown great endurance, I will not read my testimony but rather make some brief remarks.

I would like to begin by thanking you and the committee—

Chairman GONZALEZ. We will place your prepared text in the record at this point, and you may proceed as you see best.

Mr. EIMICKE. Thank you, Mr. Chairman.

Let me begin by thanking you and the Members of this committee for being the only beacon of hope for those of us working in the housing business. Since 1981, there's been little light out of Washington, and this committee has stuck with us and carried the torch, and I think we are on the verge, maybe, of just a little bit of help from Washington, and that is an encouraging sign to me.

I would also like to mention Congressman Schumer, in particular, because of his role in part of this bill, H.R. 4, which I am going to restrict my remarks to today, which is the so-called "Nehemiah Program."

Last month when my governor spoke to this committee about the growing tragedy of homelessness, we had hope, and that hope was H.R. 558. And I bring you the Governor's congratulations and gratitude for the House passing that bill, and we hope it will proceed through the Senate and be signed by the president.

In our State, we have a demonstrated housing gap of over 1 million housing units. Federal assistance—and the lack of Federal assistance, unfortunately, has contributed to that rather staggering

total. Over the last 4 years with Governor Cuomo's leadership, we, at the State level, have been able to provide over \$4.4 billion for new housing, which the Governor spoke to you about last month, but all dollars, once they are actually put into new units, will only meet about 20 percent of our housing gap. I think, as virtually all the speakers have said and will say in the future, State and local governments cannot solve what has become a national crisis in the availability of affordable housing without help from Washington.

The frightening statistic that there are, in fact, more homeless men, women and children in this country than there were during the height of the Great Depression, I think, is the most poignant testimony to the need for housing and the need for Federal participation.

On a positive note, we are here today to discuss a Federal action to help provide for those Americans on every level who are in need of housing. The Nehemiah concept we find to be one of the more exciting new ideas to come out of State and local government, and we are very proud that it, like many other new initiatives in housing, began in New York, particularly in the East Brooklyn section of New York City. I.D. Robbins, who I believe spoke to you several years ago about the Nehemiah concept, he being the chief architect of the program, at that time told you that, in fact, Nehemiah was replicable, that it could be done. And I am proud to say, in New York, we have done it. In 1985, the Governor signed into law the Affordable Housing Corporation, which is designed to provide the State dollars necessary to make the Nehemiah dream a reality for New Yorkers across our State, and it has been done. Over the past 2 years, as Congressman Garcia recently mentioned, we have been able to produce nearly 8000 Nehemiah style housing units across New York State.

Perhaps one of the more dramatic ones are in the city of Lackawanna. As you are probably more than familiar, Lackawanna suffered almost a crippling blow when the Bethlehem Steel plant closed. But Lackawanna is on the way back. One of the major problems they faced on their way back was the absence of affordable housing. The State of New York, the city of Lackawanna and the private sector got together and are now in the midst of building 136 Nehemiah homes in Lackawanna, the first new homes to be built in Lackawanna in 25 years.

But it is not just East Brooklyn, and it is not just Lackawanna. Right now, in construction, 80 new Nehemiah homes in Schenectady, near Albany, our State capital. 91 in Rochester, where Eastman Kodak is centered. Another 117 in Buffalo. And it is not just limited to cities. In rural Essex County in Upstate New York, 60 Nehemiah homes. Green County 38. Steuben County, 31. 37 Nehemiah homes in Clinton County.

As I say, \$50 million over the last 2 years, 8000 Nehemiah homes. It can be done anywhere.

I am also pleased to note that we recently began conversations with Catholic Charities and Congressman Garcia to do a Nehemiah project in his district, in the South Bronx.

So it is with confidence that I testify today that Nehemiah can be done. It can be done in rural counties, it can be done in urban counties.

I do have two suggestions about the Nehemiah legislation that is encompassed in H.R. 4. First, we need to bear in mind that modest incomes make down payments on a house perhaps even more difficult than the monthly carrying charges. In New York, we've set a minimum down payment at 5 percent. I know your bill encompasses 10. Our experience is, that lower down payment allows families with more modest incomes to get into the program, and it hasn't threatened the financial stability of the program.

The only other suggestion I would make, which Governor Dukakis also made, is that 50 units may be too high a threshold for certain communities, and I would urge you to consider a little bit more flexibility, in terms of the numbers of housing units that are eligible for the program.

Most of all, I want to encourage you, despite what I know must be a very frustrating quest, to once again bring the Federal Government back into the Federal, State and local partnership to produce decent housing for all Americans.

Thank you, Mr. Chairman, for the opportunity to address the committee.

[The prepared statement of Mr. Eimicke can be found in the appendix.]

Chairman GONZALEZ. Thank you, Mr. Eimicke. We deeply appreciate your considerations.

Let me say that the 10 percent was not my making. I am probably the last surviving, hard-core opponent of interest rates. I am one of the surviving Wright-Patman corpsmen. And so naturally, I resisted. We set the pace in doing away with the usury laws throughout the States, including the State of Texas, my home State.

But the 10 percent, as well as other parts of the Nehemiah Program were the result of a compromise, that even Mr. Schumer accepted, with the debate that ensued during markup two years ago. My colleague, Mr. Bartlett, had originally opposed the whole concept of Nehemiah. In fact, he believed that it was strictly a New York plan. And so then Mr. Schumer modified, for instance, the amount of land considered, and so forth. One of those things that fell by the wayside was the 5 percent. We visited the Nehemiah Program in New York. It was after that visit that we incorporated the legislation for the program in H.R.1.

So that you are right and, in fact, I am hopeful that we can change that before we get this bill out of the House, but we'll see. I do agree with you, though, that 10 percent is just too difficult and contrary to the best interests of a successful program.

I believe your experience throughout the State of New York clearly exemplifies the viability of it on a national legislative level.

Coming back to Mr. Schwartz, I notice that in 1984, you unified your housing and housing finance agencies and probably some other corollary agencies. I want to congratulate you. That did really give New Jersey a very good angle of approach. But I notice, also that your agency can come in and use the resources of agency pools. And is that something that State agencies have been doing generally, or is this something that's unique to New Jersey?

Mr. SCHWARTZ. No, I don't think it is entirely unique. There are a number of other States that have that power. Mr. Luallen could

probably testify to that. I would not say that it was unique, sir. I would say that it is probably a minority of States that can do it, but probably more unique, actually, Mr. Chairman, I would say totally unique was our giving the power of selling housing stocks, new housing securities. To my knowledge, that is entirely unique, and New Jersey is about to sell its first such security. We created a subsidiary corporation within the housing and mortgage finance agency, which is popularly known as the Housing Assistance Corporation, and I am pleased to say that this year the first Housing Security will be sold on the market that will finance one senior citizen project and one multifamily project.

Now you may say, well, it's two little projects, maybe 70 units in one and maybe 200 units in the other, and what is the big deal. The big deal is that these were projects in particular locations or for particularly frail and underfinance poor people in such a place where no private developer was available, even with all the incentives that I described to you earlier. The State had to act as the developer. And yet without it, these 270-odd people or families would be without housing. We would have added 270 poor souls to the ranks of America's homeless. So that the ability to sell stock, housing securities, that I think is unique. I am unaware of any other State that does that. But it is not, I think, entirely unique to sell securities based on agency loan pools. I think there are several other States that have that power.

Mr. LUALLEN. Mr. Chairman?

Chairman GONZALEZ. Yes.

Mr. LUALLEN. Colorado has some pending legislation on this. In fact, I think it is now before the Board of Directors of the California agency. Indiana is doing something similar to this. We, in Kentucky, have established a trust fund from our own HFA funds—it is not a State-funded one, because we have some very severe budget problems in our own State because of the economy, but we will also send to the committee a listing of all the other States which are doing the pooling similar to what Mr. Schwartz is talking about.

Chairman GONZALEZ. I, for one, would appreciate that and be grateful if you could supply it for the record.

Mr. LUALLEN. We will be pleased to do it.

[Information pertaining to other States who are doing the pooling can be found in the appendix.]

Chairman GONZALEZ. I had made some notes, but I don't know what I did with the copy of your testimony here, Mr. Schwartz.

I think that what you have done is really very seminal, very original.

Mr. SCHWARTZ. Thank you, sir.

Chairman GONZALEZ. But I am wondering, what about your rate of homelessness? It must have a cause and effect here. I am not aware that New Jersey, even in Newark, is confronted with the same critical situation than some of the other urban areas in our country.

Mr. SCHWARTZ. Well, I think that is possibly correct. Our best estimate is, of course, a terribly inadequate estimate, is that the State of New Jersey presently has some 28,000 homeless persons. I think it is probably true that our rate of homelessness is somewhat less than in some of the other States. There are a number of reasons

for it. Some of the reasons have to do with the size of New Jersey cities, which tend to be smaller, and so persons who are experiencing various difficulties that might otherwise result in homelessness perhaps get caught in a—get esconced and meshed and helped, because the great anonymity of some of the larger cities, it is not true in many of our cities, only a very small number of New Jersey's urban centers are, in fact, very, very large. The bulk of our 56 urban aid communities, as we call them, the cities, really are under 50,000 or at least under 100,000 persons, and they tend to have strong neighborhoods. So there is not the anonymity that some great cities have had.

Nonetheless, two things should be said. And one of the reasons for our relatively low rate of homelessness is that we have a homelessness prevention program that we wheel in resources in a timely way, that there is a State entity, and I know that these are times when people say, oh, you are going to create a new bureaucracy every time you give somebody a program.

But it was crucial for us to have some place in State government where it was their responsibility to learn when there was to be an eviction that was a truly foolish eviction, an eviction of somebody who was down on their luck for just a month or two, and where the provision of a few dollars, Mr. Chairman, could save them from homelessness, save the taxpayers the cost of a welfare motel and just do it in a moral, as well as economically responsible way.

Let me share a personal vignette with you. We had a man who lived in the city of New Brunswick with his wife and child, 6-year old child as I recall, who had been working in the same factory for the better part of 7 years. Had not—a very low-skilled post he had and had not progressed in terms of the hierarchy of the business, but he worked and worked hard and drew down a salary all those years.

And then, in November or December—I believe, early December of 1985, just before Christmas, he was laid off. Laid off and his wife became ill just about the same time.

And, in late January 1986, they were going to evict him. His landlord said, Look, this is not a charity. I feel sorry for you but I can't carry you, I have to pay my bills, too.

Well, you know what we did? We went in, Mr. Chairman, and we gave him or lent him actually 2 months rent. It was under \$500. Three months later, he was called back to work, has been working ever since, and he paid back the money.

Now isn't that better—isn't that \$500 better than to spend \$3,000 putting him in a welfare motel, which would have been the cost over the same 3-month period?

Well, I can tell you that my bills in that regard, sir, has saved 10,000 families from the nightmare of homelessness. And I don't think it takes a lot of imagination to figure out that that's better. It's simply better.

Chairman GONZALEZ. Yes. That's what I was referring to when I said I was looking for some notes I took here. I noticed that when you explained it the first time, you talked about both rural as well as urban extended program.

But what is your triggering information as to notification of a prospective foreclosure?

Mr. SCHWARTZ. You're quite right. And I'm glad you used the word "foreclosure", because, in my language, in my terminology up to this point, I've been talking mostly about eviction and others might have misunderstood that I was talking only about rental eviction.

You are quite correct, Mr. Chairman, our program does deal with mortgage foreclosures as well.

The situation is clearer on the rental side, however, because what we do have is, under the laws of eviction in New Jersey, there is a period of time during which the potential evicted family is given a grace period of about 10 days.

Chairman GONZALEZ. Excuse me. But does the agency carrying out the procedures, either eviction or foreclosure, notified or are they under some responsibility to notify the housing finance?

Mr. SCHWARTZ. Yes, sir, mandatorily. And an eviction for cause in New Jersey automatically triggers a notice to our homelessness prevention program. Yes, sir. Your question is very apt. I should have answered in that direction. Yes, sir.

There is a mandatory—any eviction for cause triggers a mandatory notification to our program.

Chairman GONZALEZ. What about the case of foreclosure?

Mr. SCHWARTZ. That is less clear. And it's not mandatory. It should be. And let me say, too, Mr. Chairman, that we were only meeting about 2 percent of the needs with my New Jersey program. So I don't want to give you the false view that everybody whose going to be evicted and shouldn't be evicted, who could be helped for months—

Chairman GONZALEZ. I understand that.

Mr. SCHWARTZ. We're only meeting about 1/10 of the need.

Chairman GONZALEZ. Yes, I know, but glory be to what you are doing, which is more than anybody else is doing around this country.

Mr. SCHWARTZ. We're hopeful if we could tell the story of how many people we've saved and how cost-effective it is, and if others could carry that message around this Nation, that more people would do it and we'd get more money.

Chairman GONZALEZ. The history of the Home Owners Loan Corporation, and the Emergency Home Mortgage Assistance Act of 1983 is clear proof of what you're saying, that the American people are a good risk.

Mr. SCHWARTZ. No question.

Chairman GONZALEZ. And when they closed out the HOLC, the government had about \$350 million in its coffers when \$350 million was equivalent to \$1 billion today.

So you're right and I really want to compliment and salute you and the State, but you particularly because, you know, I've had the privilege of serving on the local legislative level, the city council, the State legislative level the State senate, and here in the Congress for almost 26 years.

And as I moved up, it was obvious when I got here it was a relief. And it has been most distressing that for the last 12 years, this relief has been reversed.

I could see why the burgeoning needs on the local level were not being heeded. They were not on the State level, at least in mine.

While I speak from my own experience of these issues in Massachusetts, my conversations with governors and public officials and private developers from many other states convince me of a common commitment across America for a revitalized federal role in providing decent and affordable housing for all Americans.

1. HOMELESSNESS

The Emergency Comprehensive Homeless legislation which has passed this House is an important first step and recognizes the critical need for federal help in dealing with what I have called a national scandal. Speaker Wright deserves our thanks for moving into the vacuum that has existed at the national level on this issue.

As many have testified here and as my experience in Massachusetts indicates, the homeless are different kinds of people: the mentally ill, the substance abusers, the single elderly, and increasingly, families with children. The needs of the homeless are many: health care, food, emergency shelter, and reintegration into the community. But the fundamental fact of the matter is that we didn't have a serious homelessness problem six years ago -- and we have one today. And there is only one difference: We aren't building any housing for families of low and moderate income.

the nation was ill-housed, thousands of our fellow citizens have no place to go.

Until 1980, there was no debate about our responsibility to provide decent and affordable housing for our people. And there was fundamental bipartisan support behind our efforts. Under the administrations of Gerald Ford and Jimmy Carter, we were building or rehabilitating over 200,000 units of federally-assisted housing for families of low and moderate income. Today, we are doing barely 25,000 units year.

No wonder we have a homelessness problem in this country. It is a national scandal. It is a national embarrassment.

The experience of the past half decade indicates that state and local initiative can result in the production of affordable housing. Many states have taken a leadership role in such partnerships; but such initiatives simply cannot do the job they must do without more support from our friends in Washington -- not help that comes from doggedly pursuing reluctant federal officials but rather support which generates from positive federal engagement. The engagement must begin with the three central problems in our current housing situation: 1) homelessness, 2) the decline in affordable homeownership, and 3) the threat to the existing stock of subsidized housing.

In my state, a booming economy has put enormous pressure on the real estate market and rents have soared beyond the reach of many low and moderate-income families. But we in Massachusetts are not alone. Housing costs for low-income households have risen dramatically across the country. The median rent in 1974 [p.13-JCUS 1986 report] for households in the lowest income class was 35% of income. That figure rose to 46% of annual income by 1983. For female headed households with small children, the national figures on shifting rent burden are particularly stark. In 1974, 17% of such households paid more than 75% of their income for gross rent. In 1983, that 17% had risen to 34% [p.27 and 29 of JCUS]. When one-third of the nation's single mothers are paying three quarters of their income for housing, it is not hard to understand why we are finding more and more of those families in our shelters. And we need a federal-state partnership that produces good housing at affordable rents if we're going to change things.

I strongly recommend a housing production block grant program which would be used by states to supplement their own efforts and the utilization of the tax credits made available in the Tax Reform Act of 1986. We have a responsibility to take those funds; work with communities and developers, both

private and non-profit; and build or rehabilitate mixed-income housing. The federal block grant can make those partnerships happen.

Our experience in Massachusetts with our State Housing Assistance for Rental Production (SHARP) program shows that the careful use of public dollars can encourage the private sector to produce mixed-income housing. Several weeks ago in Boston, I sat with a young woman -- a 26-year-old single mother -- who spent two years moving from shelter to shelter with four small children. She simply couldn't compete in our current housing market.

Today, she and her children are living in a lovely three-bedroom apartment in a former Boston school that has been transformed into seventy-five outstanding mixed-income units -- thanks to SHARP.

She was helped by a Section 8 certificate. But she was lucky. Two hundred other families -- all with Section 8 certificates in hand -- were turned down. The housing market isn't working for very low income people. The units simply are not there. SHARP provides an interest subsidy which decreases over a 15-year period and is a loan. Seven thousand five hundred (7,500) units are being built under this program right now in Massachusetts.

To give you some idea of the effectiveness of SHARP, consider the following:

-- Section 8 new construction on average laid out \$10,000 per unit per year as a grant for a total federal outlay over the 30 year life of the mortgage of \$300,000.

-- SHARP averages \$1,500 per unit per year for 15 years, reducing itself to zero at the end of the 15 years as a loan for a total outlay per unit of \$22,500.

In addition to the housing block grant to support the state and local role, there is a continued need for rental subsidies such as are represented by Sections 231-237 of your bill. Such help worked for that young mother of four. We can use a lot more of it.

2. AFFORDABLE HOMEOWNERSHIP

It's not just the very poorest of the country's households that are being shut out of the housing market. Escalating home prices have made it virtually impossible for the young first-time buyer, especially in the northeast, to find even the most modest home affordable. We had a dramatic example of this recently. A police chief on Cape Cod, looking for new

officers to hire for his force, came to the conclusion that he was virtually limited to recruiting 19- and 20-year-olds still living at home with their parents -- because more experienced officers, or older men with families, could not find homes in his community.

And, as in the case of the homeless problem, a look at national statistics makes it clear that Massachusetts is by no means alone in facing a drop in homeownership. Until 1980, homeownership rates for the country as a whole had increased steadily for 35 years. Since 1980, however, these rates have fallen every year. The young buyer is the most dramatic casualty of this decline. Among households headed by individuals in the 25-29 age group, homeownership fell from a rate of 43.1% in 1975 to 34.3% in 1985. For those in the 30-34 age group, the rate fell from 62.2% in 1975 to 53.6% in 1985.

We can get added perspective on the homeownership problem by looking at median sales prices from around the country, translated into the income levels necessary to meet the prices. The median single-family price in Hartford, Connecticut, is \$103,900. A family needs to earn \$40,800 a year to afford a house at that price -- and \$40,800 is well beyond the income level of many young families. In the San Diego metropolitan area, a family must earn

\$43,450 to afford a single-family home costing \$110,600. In Denver, the median sales price is lower -- \$84,500 -- but a young family still needs to earn \$33,214 to buy a house at that price.

Most of you remember as I do that, at the end of World War II, the VA and the FHA made homeownership available to thousands of young couples. We helped make the American dream of homeownership a reality for those families. In 1987, we need to ensure that the kinds of opportunities available then are also available to the young families of today.

In Massachusetts, we're creating local housing partnerships that can build affordable housing for ownership. We have created the Homeownership Opportunity Program (HOP) which uses available public land, special grants, and below-market mortgages to build housing for the moderate income first-time buyer. Dozens of local communities have now stepped up to the plate and been formally designated "partnership communities."

Nehemiah Grants, which are a part of H.R.4, represent another way of making it possible for more young families to own their own home. With a few changes, the Nehemiah program -- currently proposed as a large-scale urban initiative -- could also become a smaller-scale program for use by the wide

range of communities now served by Massachusetts homeownership programs. What we hope the program can offer is a way for states to make creative use of limited federal funds; build housing partnerships; and get housing for ownership built and available -- fast.

3. MAINTAINING THE EXISTING STOCK OF LOW-INCOME HOUSING

We must also ensure that existing low-income housing is preserved and improved. That is why your efforts in H.R.4 to establish a comprehensive grant system for maintenance and repair of public housing is so critical.

In addition, we need to examine the expiring use restrictions and subsidy expirations that are coming due on thousands of HUD-subsidized units: from the old Section 221(d)(3), Section 236, and Section 8 programs. Mortgages will be paid off. Contracts will expire. And units will be lost to low-income people unless we do something about it.

So what are we advocating?

4. SUMMARY

Already in Massachusetts, sixty-five communities have established local housing partnerships. Communities are learning quickly from each other, and we are working closely with them. One small city in central Massachusetts -- Fitchburg -- is a great example. The mayor and other elected officials, city

staff, community representatives, a local non-profit organization -- all have worked together to build public support for affordable housing. Their success is evident in a number of ways. In the last year, over 100 homeless families in this city moved from shelters into permanent housing. One social worker spent hours and hours of her time matching homeless families to landlords. I don't think I need to tell you what an example she set for the whole community. At the same time, a local builder, a son of immigrants, Yvon Robichaud, decided to forego a percentage of his profit in order to make more units available at prices first-time buyers could afford -- so his neighborhood could remain diverse and a rich source of new opportunities for today's young families.

During the first fifty years of federal housing policy in this country, most states played little or no part in providing decent and affordable housing for families of low and moderate income.

But in the last few years, state governments have decided that we must get involved. And, as we have learned in Massachusetts, we can do a lot when we work as partners with the entire housing community. But we need help. We need a vital federal presence to enable us to bring down the barriers to housing opportunity in this country.

I look forward to working with you. And I know I speak for all the
Governors when I say that we will be ready and willing to hold up our end of
the bargain.

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National Governors' Association

Bill Clinton
Governor of Arkansas
Chairman

Raymond C. Schappach
Executive Director

ADDITIONAL COMMENTS OF

GOVERNOR MICHAEL S. DUKAKIS

ON BEHALF OF

THE NATIONAL GOVERNORS' ASSOCIATION

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

U.S. HOUSE OF REPRESENTATIVES

MARCH 11, 1987

HALL OF THE STATES • 444 North Capitol Street • Washington, D.C. 20001 • 1572 • (202) 624-5300

Mr. Chairman, I would like to add the following comments on this legislation on behalf of the National Governors' Association. As Chairman of the NGA Committee on Economic Development and Technological Innovation, I am pleased to offer these remarks in support of H.R.4.

As has been articulated throughout this testimony, the National Governors' Association (NGA) believes that the commitment made in 1949 to ensure "a decent home and a suitable living environment for all Americans" is as important now as it was then. The NGA believes that housing must be reinstituted as a top priority for the federal government. Therefore, the NGA endorses the reaffirmation of this principle as set forth in H.R.4.

The NGA supports the continuation of a federal role in the financing of emergency shelter programs, until such time as the more fundamental causes of homelessness can be alleviated. While the NGA recognizes the need for short-term responses to the emergency aspects of homelessness, it urges the Subcommittee not to view such responses as solutions to the longer term problem. The longer term problem, particularly the lack of affordable permanent housing must be addressed as expeditiously as possible if we are to effectively respond to homelessness.

The NGA supports funding for HUD and FMHA assisted housing programs at levels at least equal to those achieved in FY 1986, adjusted upward by one-half the rate of inflation (for HUD assisted housing programs this translates into budget authority of not less than \$10.3 billion).

In light of the tremendous need for housing indicated earlier in this testimony, the NGA believes production of new housing units must again become a critical component of federal housing programs. While it is vital to maintain adequate levels of both Section 8 vouchers and certificates, the moratorium which has effectively been placed on the production of new units must be halted.

Since circumstances vary from state to state the NGA would urge the Subcommittee to consider a housing block grant to states. This approach would allow states, working with their local governments, to tailor program design and to determine the appropriate mix between new construction and subsidy for existing housing which best meets individual needs within the state. State and local resources for housing can be more effectively combined to work with such an approach.

The federal government should accord high priority to maintaining the physical and financial soundness of existing low income federally assisted housing to ensure its continued viability and affordability for low income tenants. The comprehensive improvement program for federal public housing,

and the multi-family housing preservation loan program contained in H.R.4 attempt to achieve this goal, and should be supported.

The NGA would appreciate the opportunity to work with the Subcommittee on the issue of expiring use restrictions which threaten to cause severe dislocation for low income families if not effectively addressed.

The NGA endorses the permanent reauthorization of the Home Mortgage Disclosure Act of 1985. This act is an important instrument for overcoming mortgage redlining, one of the indirect obstacles to equal opportunity in housing.

The NGA believes that federal housing policies should recognize the special needs of rural areas, and that the federal commitment to rural housing should remain intact. The FMHA should encourage joint federal/state initiatives to develop affordable rural housing.

The NGA strongly endorses the continuation of community and neighborhood development programs, including the Community Development Block Grant (CDBG) Program, and the Urban Development Action Grant (UDAG) Program.

The Community Development Block Grant Program has been effectively utilized to address a wide variety of needs including providing public and community facilities and infrastructure, housing rehabilitation, and economic development. Both the CDBG and the UDAG programs have been tremendously successful in leveraging additional private and public funds for projects which provide significant public benefit, particularly for lower income households.

The Nehemiah Housing Opportunity Program provides a valuable tool to assist in helping low income households realize the dream of homeownership. To ensure that the program provides the widest variety of choices for low income households, the following changes would be beneficial:

- 1) Eliminate the requirement that homes must be located in census tracts in identified neighborhoods in which the median family income does not exceed 80% of the area median family income. This would achieve the dual purpose of allowing suburban as well as urban development, and would enable low income households to reside in mixed income neighborhoods.
- 2) Eliminate the minimum number of homes per project requirement - this would enable small scale development that could fit within many existing neighborhoods.

- 3) To increase the number of units being produced, the program could be expanded to profit as well as non-profit entities. Profit entities should be restricted to no (or limited) profit on any units produced through the program but could be encouraged to develop market rate units in conjunction with the units assisted through the program.
- 4) All types of ownership forms should be encouraged: single family, condominiums, cooperatives, or other forms of tenant ownership. Downpayment requirements could be eased to further expand the number of low income households who can utilize the program.

**STATEMENT OF ASSEMBLYMAN DAVID SCHWARTZ
BEFORE THE HOUSE SUBCOMMITTEE
ON HOUSING AND COMMUNITY DEVELOPMENT
WASHINGTON, D.C. , MARCH 11, 1987**

Good afternoon, Mr. Chairman and members of the committee. I am deeply honored by your invitation to speak to you, and with you, on the subjects of housing policy and of pending housing legislation. I appreciate the opportunity to discuss, with this distinguished subcommittee, the real and pressing need, and for some Americans, the desperate need -- for affordable housing. I hope that my testimony will contribute to your important work, work which I hope you will define as the design of a new housing policy for America -- a new Joint Federal/state housing policy which is urgently required at this time to meet our nation's housing needs.

We need a new housing policy now because our present policies are clearly insufficient. Homeownership is declining in America and has been declining since 1980. The quality and affordability of rental housing is also declining in our nation. But homelessness -- the national shame that Americans are living and dying in the cold streets and alleys and culverts of this country -- is not declining: it's burgeoning. Our nation is receding, and the Federal government of late seems to have been retreating, from the great goal of decent affordable shelter for all our citizens.

Permit me to review with you, at least briefly, some recent data on declining homeownership levels, on declining conditions in rental housing and on the virtual explosion in homelessness in the United States. Such a review will not only underscore the urgency of adopting a new housing policy for America, it should help us to identify some of the key problems to which such a policy must be addressed.

Let us look, initially, at homeownership. This is an important concern because for most families, owning a home is a part of the American dream, a goal for which they save and sacrifice a symbol of family security, stability and success. Putting comfortable housing within the reach of our people is a basic priority of American government -- one with deep, historic roots. From the Homestead Act in the 19th century to the Federal Housing Administration, Veterans Administration and Farmer's Home Administration laws, the national government again and again has provided essential tools that made homeownership an attainable goal for a majority of Americans. Today, however, too many people are discovering the door to homeownership is shut. Let us review the facts.

First, American homeownership levels are declining and have been falling every year since 1980. Before then, homeownership had risen steadily for 35 years.

An important recent study conducted by the Joint Center for Housing Studies of the Massachusetts Institute of Technology and Harvard University documented the decline in homeownership in America. The study indicated that since 1981 the percentage of homeowners in the 25 to 29 age group fell by almost one percent each year. Similarly, for those between the ages of 30 and 34, homeownership has dropped from 59.3 to 54.7 percent in the past half-decade. For young families, homeownership levels are well below those of the 1970's.

Part of the reason for the decline in homeownership in the 1980's is, of course, the skyrocketing costs of buying and maintaining a home. Homeownership cost burdens remain at three times that of the 1970's. The impact of these costs means today's young families confront barriers to homeownership that previous generations simply did not have to face. Figures from the Urban Institute and other national sources make this point graphically:

In 1959, a typical 30-year-old had his real income increase 49% over the next 10 years, while he paid 16% of his income for the average home.

In 1973, an average 30-year-old saw his income decline slightly over the next 10 years, while he paid 21% of his income for the average home.

In 1983, a 30-year old not only earned less than the typical 30-year-old in 1973 (in constant dollars), but paid 40 % of his income in mortgage payments. Today, according to some analysts, that 30-year-old would be paying 44 % of his income for housing.

The problem exists not just for young families, but for all first-time home-buyers or would-be home-buyers. In the 1980's homeowner h p levels declined for almost every age group in the American population. Statistics relating to the size of downpayments relative to income illustrate the problem. In 1978, the typical home-tuyer had to make a down payment of about one-third of his yearly income to purchase his home: by 1985, that share had risen to 50%. As Anthony Downs said in a recent Brook ng's Institution publication, "the percentage of all potent a first time home-buyers who can actually afford to purchase homes at today's interest rates and prices is much lower than it was in the 1950's and 1970's." Today the "average" American family can no longer afford to buy the "average" American home. A family earning the nation's median family income of about \$28,000 falls short of the income needed to carry the mortgage on today's median price home.

Despite recent, and most likely, temporary drops in mortgage rates, a substantial and unprecedented portion of the population is excluded from the housing market.

While the costs of home ownership are perhaps most consequential in blocking achievement of the American dream for young families and first-time home-buyers, the total cost of home ownership today has other negative consequences. In 1985, the mortgage default rate was almost one percent of all existing mortgages, the highest level since the early 1970's. The foreclosure rate has nearly doubled since 1980. The MIT/Harvard study calls this "a large and growing problem of mortgage default and delinquency for the United States." Millions of families can't buy a home and too many Americans can't keep the one they've got.

Rental Housing Conditions

When millions of people who want to buy homes can't, it drives up rents. And an already severe shortage of rental units is made worse. That's the law of supply and demand. Let's take a brief look at the rental housing situation in America today.

As homeownership has declined since 1980, the number and proportion of renter families has grown, reaching 35% of all American households in 1985. As the number and proportion of renters grew, so did their costs. Median rents went up from 20% of income in 1970 to 29% higher in 1980's. This increase is not only substantial, it far outstripped the rate of inflation.

The key problem is that America's tenant population disproportionately is made up of people who can least afford dramatic housing cost increases -- low-income persons, single parents, and minorities. For low-income renters, the recent past has meant disastrous cost increases; they saw the amount of their incomes spent on housing go up from 35% in 1974 to 46% in 1983. In 1985, 47% of low-income renters (7,000,000 families) spent more than half of their incomes on rent, while 13% of all tenants pay more than 75% of their income on rent.

A major reason for these high, unaffordable rent increases is a lack of supply, and it is to this problem that considerable policy attention must be paid. A recent national study by the National Low Income Information Service showed a shortfall of almost 4,000,000 affordable apartments in America. That study also showed that every state had a shortage of affordable apartments. Worse, every state had a more severe shortage of affordable apartments in 1985 than it had in 1980.

Beyond the unaffordability of apartments, the number of tenant households living in substandard shelter actually increased by seven percent in the 1974-83 period. In that decade the number of Americans living in inadequate shelter grew from 3,600,000 to around 3,900,000. Although 5,000,000 new multi-family units were built between 1974 and 1985, the number of structurally inadequate rental units actually increased. For every 100 units of dilapidated apartments withdrawn from the housing market in a typical decade, 107 apartments slip into inadequacy; and nearly 500,000 lower-rent apartments disappear each year - through building conversion, arson, abandonment, inflation and demolition.

Homelessness

Nothing so clearly demonstrates our need for new housing policies than the shocking phenomenon of homelessness. The past decade has witnessed an explosion in the size and diversity of our homeless population. Estimates of the number of the homeless vary from 330,000 to 3,000,000 Americans, while estimates of the annual growth of the homeless population vary from 10% to nearly 40%. However, there is little variation in the perception of the problem as a crisis - the National Governors Association, Congressional committees, reporters, and housing advocates have all used that term. The many Americans who have no decent, private place to sleep tonight is a crisis, one that mocks our claim to be a prosperous and sufficiently humane society.

Unlike the stereotype of the lone drifter, the Bowery bum, the mentally unbalanced, today's homeless are mostly functioning adults and families with children - a representative cross section of the poverty population.

Peter Kerr of The New York Times saw clearly the linkages among the topics we have been talking about. In the winter of 1983, he wrote: "the same economic forces that make it impossible for middle class families to buy their first homes prevent some of the poor - those who have been evicted, burned out or forced out - from finding any shelter at all."

Why do we need a new housing policy for America? Because we want more, not fewer, young middle and working-class families to be able to buy a home. Because we want fewer, not more, tenants to live in dilapidated apartments. Because we want no one, no American to be shelterless.

Continuation of Recent Federal policies will not
Expand Homeownership, Improve Rental Housing Conditions or
Prevent Homelessness

In 1981, budget authority for low income housing programs approximated \$30 billion; by 1985 it had fallen to \$10.8 billion. At the very least, these cuts have not helped meet America's housing needs. As the number of new families receiving Federal housing assistance has declined from 393,000 in 1973 to 69,000 in 1985, we witness a mounting affordability and quality crisis in rental housing and expanding homelessness. These cuts do not help, have not helped.

Last year, in the face of declining homeownership levels, the federal government sharply restricted the ability of state and local governments to encourage homebuying, by curtailing use of mortgage revenue bonds. This year, Reagan budget proposals would make mortgages more expensive by requiring new fees and limiting government-backed mortgages. Higher loan origination fees and higher mortgage insurance rates on FHA and VA insured mortgages, added to a proposed prohibition on including closing fees in the mortgage -- newly proposed policies -- will negatively impact on hundreds of thousands of families. The door to homeownership is already shut for millions of American families; the federal government should not now hide the key from hundreds of thousands more.

As our nation confronts a critical shortage of affordable rental units, HUD subsidies for new construction and rent of apartments for low income families and senior citizens have been cut dramatically. Funds for new construction of public housing units have been virtually eliminated. Last year, tax incentives for the construction of multi-family housing were reduced. This year, efforts to sell off affordable public housing units intensify. Continuation of these policies will not help us meet the housing needs of our people.

The States Respond: Housing Policy in the American
States, 1980-1986

The states have responded to the housing problems identified with a remarkably diverse array of substantial, targeted and imaginative new programs. More than half of the states have enacted or adopted one or more new major housing programs since 1980. My analysis of a recent compendium of state housing initiatives, published by the Council of State Community Affairs Agencies, revealed a total of 119 new housing programs enacted or adopted by state governments since 1980, a total that certainly underestimates total activity as 8 states did not participate in this survey. The states have adopted programs to meet at least 10 different diverse housing needs.

These include providing financial assistance for new construction of housing, providing financial assistance for the substantial rehabilitation of existing, substandard housing units, granting rental assistance for low and moderate income families, expanding homeownership via downpayment assistance and/or interest rate buy downs, meeting the special needs of elderly and handicapped citizens, providing financial assistance to local governments and non-profit housing sponsors for land acquisition and development.

Fifteen states have adopted housing trust funds since 1980--dedicating a permanent, stable, annually renewable revenue source in order to meet housing needs. Ten states have adopted new programs to give planning assistance to local governments and non-profits. A number of states have experimented with regulatory relief in an effort to make housing more affordable.

The states have sought new partners, and many different revenue sources, in their quest to cope with housing problems. State, county, and local governments have gotten more sophisticated in working with corporate, foundation, and non-profits housing sponsors.

To meet the housing needs of the 1980's State and local governments have used general fund revenues, general obligation bonds, taxes on real estate title transfers, offshore oil revenues, casino taxes, and racetrack revenues--we have diversified our search for funding sources far beyond the traditional mortgage revenue and industrial redevelopment bond vehicles. This year, or next, states will issue taxable bonds and new housing securities.

Not counting MRB's or IRB's, states (with all of the limitations on their tax bases) will have spent more than 3 billion dollars of tax and bond revenues to meet housing needs of the 1980's.

What does all this mean? Surely not that states can go it alone. With all of the effort, all of the imagination, all of the experimentation, and several billion dollars in state level activities, we are falling behind, ever farther behind, in meeting the housing needs of our people. We need increased federal involvement. But, now, after 6 years of state level innovation and experience, the states are, I think, ready to use Federal involvement in new and better ways: The states will probably want to help shape, not just implement, federal housing policy. State level housing policy was largely derivative from Federal housing policy from 1937-1980: It is unlikely to be derivative in the future. The states seem ready now to be full equal partners that the federal government ought to want. The states seem, to me, to be ready for a robust Federalism on housing policy.

The statistics which I cited on state involvement in housing don't really give the flavor of how we, at the state level, have been working on housing problems. Let me tell you just a little about what we've been doing in New Jersey. Most of the legislation I'll discuss was of my sponsorship, so I'll be happy to answer any questions about this legislation. I should stress that these bills, all of which were bi-partisan bills, have now given New Jersey the legislative framework whereby the state can be a full partner to the proposed federal activities that I will speak of later.

First, in 1984, we created the New Jersey Housing and Mortgage Finance Agency, bringing all the state government's operations in housing under one roof for the first time. More than that we gave this new agency bold, new powers. Traditionally, state housing finance agencies have principally been issuers of tax-free housing revenue bonds; a role that will be reduced as a result of federal legislation that has capped the ability of states to issue such bonds.

The NJ HMFA has a vastly increased capacity to attract private sector capital to provide housing opportunities. The agency can sell the traditional tax-free bonds, but it can also sell taxable bonds and sell stock in projects, through its Housing Assistance Corporation subsidiary. The agency can also sell securities backed by agency loan pools.

In addition to expanding the available financing mechanisms, we expanded the agency's array of programs. Beyond traditional construction and permanent financing the new agency can co-venture housing developments with private developers participating on a shared equity and shared appreciation basis. This means that money lent to developers and private investors at reduced interest rates can be recaptured by the agency when buildings are refinanced or sold. The agency can receive a modest public sector profit which is then available to be re-lent for new affordable housing projects. It's a use of public funds that makes sense. Developers who benefit from lower interest rate mortgages are being helped to make a profit by taxpayers. It is only fair that the public should make some money on the money that the public sector invested too.

The agency can act as a receiver of substandard properties, rehabilitating those properties and re-selling them to tenant associations who are given technical assistance so that they can own and manage these properties. This power was further enhanced by the Old Factories/New Neighborhoods Act which authorized the HMFA to work with cities and neighborhood groups interested in converting abandoned factories into new, affordable housing units.

Perhaps the most exciting new program is the agency's Lease-Purchase housing program. Lease-Purchase helps young, moderate income, families to own homes when they otherwise couldn't afford to do so.

In New Jersey families can now pay rent for their chosen home for a 24-36 month lease period. At the end of the lease period the family has the option to use a portion of their rent payments that have been held in escrow for them for the purpose of a downpayment on the home that they have been living in. During the lease period the home is either owned by the builder or a non-profit group who agrees to lease the home to the prospective homebuyer in return for a construction subsidy from the HMFA. The family is also given a mortgage interest rate commitment from the HMFA at the time they begin their lease, so that the family knows it will be able to afford the mortgage payments if they successfully complete their lease period.

Finally, the HMFA was authorized to work with the employers of New Jersey to encourage employer assisted housing. Corporations, as employers are a major national financial resource, yet employers play almost no role in housing finance in this country. In Western Europe and Japan employers are key players as both developers and financiers of housing for workers.

In many areas of the nation, such as New Jersey, excessive housing costs threaten further economic growth. Encouraging employers to participate in housing New Jersey's employees we believe makes good economic sense for both the employers and the state.

In summary, the N.J. HMFA is prepared to be a partner with the private sector and the federal government in a diversity of ways.

The second major bill that we passed was the Urban and Balanced Housing Act. This legislation created a state housing trust fund. This annual, dedicated source of revenue, now totalling some \$20 million per year is basically used to help subsidize and stimulate the construction of thousands of new affordable rental units for low and moderate income families.

The program provides a one-time, up-front subsidy which is more easily administered and less costly than other subsidies. This subsidy, averaging approximately \$10,000 per unit has proven to be a sufficient incentive to the shelter industries and non-profits to produce new rental units. Municipalities compete for the funds and are required to make cost-saving contributions such as donations of land, zoning density bonuses, partial tax abatements and the like. The state also provides long-term, fixed-rate, permanent financing at interest rates designed to enhance affordability.

Our approach has generated thousands of new houses, apartments and home improvements in New Jersey. The jobs, and the sales and income tax revenue created by this public and private investment produces more than enough revenue to repay the public treasury for the public money spent.

The third key bill which we passed in New Jersey was my Prevention of Homelessness Act, which also passed in 1984. It also makes sense both morally and economically. The program helps keep families together by helping them hold onto homes through short-term subsidies. The cost of providing short-term cash payments to prevent homelessness has proved to be much less costly than having a family become homeless and enter the expensive welfare system.

Our program has made getting an affordable and good home an attainable dream for over 17,000 New Jersey families in just the last two years.

New Homebuyers Provided Mortgages	8,000
New Apartments Constructed	4,700
Families Helped to Keep Their Homes	3,800
Life Safety Equipment Loans	1,000

At this rate, our home building and ownership bills will help at least 165,000 families by the year 2000.

Some in Washington would have government abandon America's historic commitment to affordable homes for our families and to the health of our communities. But our programs make our government work for average Americans and those in temporary need - and do so cost effectively.

A New Housing Policy For America: A 10 Point Proposal

Based on the New Jersey experience, and that of the other state programs I have studied, may I now present for your consideration a 10 point proposal, for a new housing policy for America.

To broaden homeownership, to help young families and first-time homebuyers effectively enter the housing market, it is necessary to bring down payments and interest rates within reach. The Federal government can help with both down payment assistance and interest rate buy-downs, at no ultimate cost to the taxpayer.

To help young families accrue the needed down payment to buy a home, we could establish a national lease-purchase homeownership program -- perhaps one modelled on the successful New Jersey Lease Purchase effort.

Over the past two years, our Lease-Purchase program encouraged the construction of hundreds of new homes in several urban centers, helping hundreds of young couples. More such housing is under construction now. I hope that a National Lease-Purchase Homeownership Law will be considered in the Congress in the near future.

An even more expansive program of help with down payment burdens can and should be undertaken by establishing a shared-equity or co-investment mortgage fund - a National Housing Investment Corporation - which would recapture principal and interest or appreciation in later years when the family would have a better income foundation or when they sell their first home to "move up". A National Housing Investment Corporation would make our government a full housing partner, investing in the two best assets we have - our families and our housing stock. It would have an equity interest in a diversified, high-quality portfolio of appreciating housing assets, so that the realized appreciation could be reinvested to produce an even larger number of affordable new housing. By making a secondary market in shared-equity mortgages, such as those from the Government National Mortgage Association (GNMA's) and the Federal National Mortgage Association (FNMA's) do with other mortgage-backed securities, the power of major private-sector financial entities can be brought to bear to produce and maintain affordable homes. A National Housing Investment Corporation also could conventure housing activities with labor unions, community groups, and religiously oriented nonprofit organizations - and could do so on a deferred, shared-appreciation basis so that these nonprofit organizations could acquire complete ownership over time.

Down payments for first-time homebuyers also could be reduced somewhat within existing programs, if GNMA and FNMA regulations were modified to permit prudently higher loan-to-value ratios.

A third means of helping young families to accrue the down payments they need would involve creating a National Employee Homeownership Program, permitting employers to provide down payment assistance to their employees on a basis which is tax-advantageous to both employers and employees. The Federal government already is doing this to encourage acquisition of stock ownership. Many employers are beginning to get involved in employee homeownership activities; many more could be encouraged to do so. I recommend that Congress consider a National Employer Assisted Housing Act.

These three programs, along with a new construction program for rental housing, might well be funded and administered via a new Federal Housing Trust Fund. Such a trust fund, like those adopted in 15 of our states, would dedicate a permanent, annually renewable revenue source to meeting the nation's housing needs. A Federal housing trust fund would directly support and require state-level housing activities via a matching requirement. In this way, the Federal trust fund dollars would be doubled (and perhaps more than doubled by including employer, corporate, foundation and non-profit cash contributions).

A federal housing trust fund expending \$2 billion per year, matched by the states and private sector, could produce 400,000 new units annually, for low and moderate income families, based on an average subsidy of \$10,000 per unit. Beyond the obvious benefits of homeownership and improved rental housing, this would strongly advantage the states' (and America's) economic development. New construction of housing, will provide thousands of additional jobs. It also creates profits (and employment) in real estate, financial services and housing related product industries.

Individual housing accounts, like the popular and successful individual retirement accounts, also would be a useful way to help first-time home-buyers accrue needed down payments.

As important as down payment assistance is in solving the housing affordability dilemma, so is interest rate assistance. Here I strongly advocate returning to the states the full capacity to issue needed levels of tax-free mortgage revenue funds. The recently enacted Federal tax code impacts on this capacity severely, but the states did a good job at modest consequence to the Federal Treasury and we should give back to them the full use of the tax-free bond tool. I also advocate establishing a kind of rainy day fund, a reserve fund of moneys to be used countercyclically, to make housing more affordable when interest rates rise above certain threshold levels.

The five programs—a lease-purchase law, a National Housing Investment Corporation, an Employer Assisted Housing Act, individual housing accounts, and restoration of mortgage revenue bond capacity — could put millions of American families in the homes they want to buy at little or no ultimate cost to taxpayers.

To build and rehabilitate the rental units America's tenants need, I advocate four major national efforts. First, we need a new production program to stimulate the construction of hundreds of thousands of new affordable rental units across America every year. Perhaps our New Jersey Urban and Balanced Housing Finance law could be a model for the national program.

Second, an Old Buildings, New Communities Law to encourage the production of affordable apartments via the conversion and rehabilitation of empty buildings should be enacted and properly funded. This bill would differ from existing rental rehabilitation programs in three ways: by emphasizing a government partnership with nonprofit community groups, labor unions, and religiously oriented development entities; by concentrating on empty and abandoned buildings so as to eliminate displacement effects; and by encouraging mixed-use projects to include viable neighborhood stores and service businesses. Mixed-use projects tend to enhance the success of conversion/rehabilitation efforts and maximize ultimate pay-back to the Federal Treasury. I see this partnership of the Federal government and nonprofit housing entities as immensely beneficial to both partners and, quite probably, without cost to the taxpayer.

Third, we must restore favorable tax treatment to builders who will construct affordable apartments and to state governments who wish to use tax-free bond instruments for low-income housing.

Still on tenant issues, the Federal government should recommit itself to a decent, expansive, public housing policy. We should fund fully the adequate upkeep of existing public housing units, for we do not want the government to be or to become our nation's worst slumlord. We should constrain efforts at privatization so that public housing occupants are not forced to buy unsound apartments at unfair prices. We also should fund the construction and upkeep of needed new public housing units — at least when and where local committees stand ready to welcome and support them.

Finally, we must act decisively to pass an acceptable version of the Homeless Persons Survival Act. We can prevent much homelessness on a cost-effective basis; our New Jersey Prevention of Homelessness Law demonstrates that. We can, and have to, shelter the already homeless preserving, not separating, families; promoting their dignity and independence via job-training, counselling, and other programs. Those who will sleep in a warm, comfortable, private place tonight must see to it that all of our fellow citizens who won't, soon can.

Thank you for your time and consideration.

TESTIMONY OF
THE COUNCIL OF STATE HOUSING AGENCIES
BEFORE
HOUSING SUBCOMMITTEE OF THE
HOUSE BANKING COMMITTEE

Delivered By
F. Lynn Luallen
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MARCH 11, 1987

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**TESTIMONY OF
THE COUNCIL OF STATE HOUSING AGENCIES
BEFORE
HOUSING SUBCOMMITTEE OF THE
HOUSE BANKING COMMITTEE**

**Delivered By F. Lynn Luallen
Executive Director
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The Council of State Housing Agencies**

THE COUNCIL OF STATE HOUSING AGENCIES (CSHA) REPRESENTS THE 57 STATE CHARTERED HOUSING FINANCE AGENCIES NATIONWIDE. COLLECTIVELY OVER THE PAST 19 YEARS, THESE AGENCIES HAVE PROVIDED THE FINANCING FOR OVER 790,000 SINGLE FAMILY HOME PURCHASES AND THE PRIVATE SECTOR CONSTRUCTION OR REHABILITATION OF OVER 650,000 RENTAL UNITS, 384,541 OF WHICH WERE BUILT WITH DIRECT FEDERAL SUBSIDIES. THE RECIPIENTS OF THIS HOUSING ARE SUBSTANTIALLY LOW OR MODERATE INCOME FIRST-TIME HOMEBUYERS, OR RENTERS. AS OTHER PRIORITIES HAVE CAPTURED THE ATTENTION OF CONGRESS, AND SUBSEQUENTLY A LARGE PORTION OF AVAILABLE FEDERAL DOLLARS, HOUSING OUR NATION'S POOR HAS MORE AND MORE BECOME THE PURVIEW OF THE STATES. WITH THE MEMBER AGENCIES OF CSHA IN THE FOREFRONT, STATES HAVE DEVELOPED HOUSING PROGRAMS TO REPLACE ELIMINATED OR UNDERFUNDED FEDERAL HOUSING PROGRAMS FOR NOT ONLY LOW INCOME AMERICANS, BUT FOR THE ELDERLY, THE HANDICAPPED AND THE HOMELESS AS WELL. NATIONAL HOUSING POLICY HAS, IN REALITY, BECOME THE AGGREGATE OF STATES' HOUSING POLICIES. IN THE FOLLOWING PAGES WE PROVIDE YOU WITH EXAMPLES OF SUCCESSES AND FAILURES OF STATE USAGE OF FEDERAL HOUSING PROGRAMS AS WELL AS EXAMPLES OF STATES'

OWN INITIATIVES.

CSHA IS PLEASED THAT THE 100TH CONGRESS, AGAIN THIS COMMITTEE IN PARTICULAR, IS BEGINNING TO PLAN FOR A NATIONAL HOUSING POLICY. AS THE MEMBERS OF THIS COMMITTEE ARE AWARE, HOUSING HAS BEEN A BACK BURNER ISSUE FOR TOO LONG. WE SALUTE YOUR PAST EFFORTS, MR. CHAIRMAN, AND LOOK FORWARD TO WORKING WITH YOU NOW TO SUCCEED IN A TASK FOR WHICH YOU HAVE EXPENDED SO MUCH ENERGY OVER THE YEARS.

HOUSING POLICY. THE ROLES OF THE
FEDERAL AND STATE GOVERNMENTS

AS WE ARE ALL AWARE, THE HOUSING ACT OF 1949 ESTABLISHED A NATIONAL GOAL OF A DECENT HOME AND A SUITABLE LIVING ENVIRONMENT FOR ALL AMERICANS. THE FRUITS OF THAT COMMITMENT HAVE BEEN BORN OUT. OVER THE COURSE OF THE PAST 38 YEARS, AMERICA HAS BECOME THE BEST-HOUSED NATION IN HISTORY. YET, THERE IS FAR TO GO. RECENTLY THE PLIGHT OF THE HOMELESS IN AMERICA HAS GAINED NATIONAL ATTENTION. EMERGENCY RELIEF FOR THE HOMELESS HAS ALREADY BEEN PASSED BY CONGRESS. CONCERNED CITIZENS EVERYWHERE SALUTE THESE MEASURES. THEY WILL HELP PROVIDE MUCH NEEDED RELIEF. ON THE OTHER HAND THOUGH THEY ARE NOT ENOUGH. THE PROBLEM OF HOMELESSNESS CAN BE TRACED DIRECTLY TO ONE STRUCTURAL PROBLEM: THERE IS A SEVERE HOUSING AFFORDABILITY CRISIS IN AMERICA. THE HARDCORE POOR, THE UNEMPLOYED, UNSKILLED AMERICAN IS SHELTERLESS BECAUSE IN MANY INSTANCES THE WORKING POOR OCCUPY PLACES IN THE WELFARE

HOTELS AND HOMELESS SHELTERS. THE NEED IS FOR GOVERNMENTS – FEDERAL, STATE, AND LOCAL TO WORK WITH THE PRIVATE SECTOR TO ENSURE AN ADEQUATE STOCK OF DECENT, AFFORDABLE HOUSING.

IN RECENT YEARS, THE FEDERAL GOVERNMENT HAS ABROGATED ITS ROLE IN THIS AREA. THE FAILURE OF CONGRESS TO PASS A HOUSING BILL IS CLEAR EVIDENCE OF THIS, AS ARE THE ADMINISTRATION'S PROPOSED FISCAL YEAR 1988 BUDGET, THE HOUSING RELATED PROVISIONS OF TAX REFORM AND THE GOVERNMENT'S EFFORT TO REDUCE THE FEDERAL MORTGAGE AND GUARANTEE PROGRAMS. IN THE PAST EACH OF THESE LEGISLATIVE CHANNELS HAS PROVIDED US, THE STATE AND LOCAL GOVERNMENTS, WITH MUCH NEEDED TOOLS TO INDUCE PRIVATE SECTOR PARTICIPATION IN THE LOW INCOME HOUSING ARENA.

THIS COMMITTEE MUST DECIDE FIRST WHAT ROLE THE FEDERAL GOVERNMENT WISHES TO PLAY IN HOUSING. IT IS LUDICROUS TO CONTINUE TO PIECEMEAL POLICY THROUGH A SERIES OF UNRELATED LAWS. THE CURRENT ADMINISTRATION HAS CONTINUOUSLY PROPOSED, AND TO A LARGE EXTENT WON, SIGNIFICANT CUTBACKS IN FUNDING FOR HOUSING PROGRAMS. IT HAS ALSO ELIMINATED MOST OF THE TAX CODE INCENTIVES FOR RENTAL HOUSING. DURING THE TAX REFORM DEBATE, THOSE WHO WORKED HARD TO RETAIN SOME INCENTIVES FOR HOUSING FREQUENTLY MET, WHAT BECAME AN ALL TOO FAMILIAR OBJECTION: "TAX CODE SUBSIDIES FOR HOUSING ARE INEFFICIENT. WE BELIEVE HOUSING IS BEST RUN THROUGH HUD."

TRY AS WE DID, WE WERE UNABLE TO MAKE MOST MEMBERS AWARE, OR MAKE THEM CARE, THAT FOR THE MOST PART STATES WERE RELYING ON

THE TAX CODE AS THE PRIMARY PRODUCTION INCENTIVE AND ON DIRECT SPENDING AS A BACK-UP. NO LONGER CAN THAT BE THE CASE. ALTHOUGH ONLY EARLY RESULTS ARE IN, IT IS WIDELY BELIEVED THAT THE TAX REFORM ACT OF 1986 WILL HAVE A SIGNIFICANT NEGATIVE IMPACT ON HOUSING PRODUCTION FOR LOW AND MODERATE INCOME RENTERS. TAX REFORM HAS FORCED US AT THE STATE LEVEL TO THE VERY LIMITS OF INNOVATION AND CREATIVITY IN STRUCTURING FINANCING FOR PRIVATE SECTOR PARTICIPATION. AS IMPORTANT AS HOUSING AUTHORIZATION AND APPROPRIATIONS WERE PRIOR TO TAX REFORM, THEY ARE NECESSITIES NOW.

NECESSARY COMPONENTS OF A HOUSING BILL

AS YOU KNOW, SEVERAL STATES HAVE RESPONDED TO THE LESSENING OF FEDERAL INVOLVEMENT IN HOUSING BY CREATING INNOVATIVE AND COST EFFICIENT PROGRAMS. UNFORTUNATELY MANY STATES DON'T HAVE THE FINANCIAL CAPABILITY TO FOLLOW THE LEAD OF THESE STATES AND SO HAVE A DESPERATE NEED FOR ASSISTANCE FROM THE FEDERAL GOVERNMENT. EVEN THOSE STATES WITH SUBSIDY PROGRAMS ARE UNABLE TO CARRY THE LOAD ALONE. THESE STATES, HOWEVER, WOULD BE WILLING TO SHARE THEIR PROGRAM IDEAS AND EXPERIENCE TO WORK WITH CONGRESS TO CREATE A FEDERAL RENTAL HOUSING PROGRAM. A PROGRAM LIKE THE MASSACHUSETTS SHARP PROGRAM THAT LEVERAGES MANY DOLLARS WITH A FEW IS ONE EXAMPLE OF HOW RENTAL HOUSING CAN BE MADE AFFORDABLE. A FEDERAL/STATE PARTNERSHIP COULD BE CREATED TO HOUSE OUR NEEDIEST FAMILIES IF CONGRESS IS WILLING TO NOW TAKE THE STEPS NECESSARY TO FORMULATE A HOUSING POLICY -- STEPS IT HAS BEEN RESTRAINED FROM TAKING OVER THE PAST SEVERAL YEARS.

HOODS IN NEW YORK CITY INTO A STABLE COMMUNITY WHILE PROVIDING HOMES FOR APPROXIMATELY 1,000 FAMILIES TO DATE.

INTEREST FREE CONSTRUCTION LOANS FOR THE PLAN ARE PROVIDED BY PRIVATE SECTOR LENDERS -- IN THIS CASE A CONSORTIUM OF CHURCHES. THE CITY OF NEW YORK PROVIDES THE LAND AT A COST OF ONE DOLLAR PER LOT ALONG WITH A PROPERTY TAX ABATEMENT. THE CITY ALSO PROVIDES A \$10,000, NON-AMORTIZING, INTEREST-FREE SECOND MORTGAGE FROM ITS CAPITAL BUDGET FOR EACH UNIT, WHICH REDUCES THE PURCHASE PRICE TO THE BORROWER BY \$10,000. THE CITY'S SECOND MORTGAGE IS RECAPTURED ONLY UPON RESALE OF THE HOME, AND THE AMOUNT RECAPTURED IS REDUCED TO ZERO GRADUALLY OVER 15 YEARS. IN ADDITION, IF THE HOME IS SOLD AFTER LESS THAN 15 YEARS, THE HOMEOWNER MUST SHARE THE APPRECIATION WITH THE CITY. THE PORTION OF APPRECIATION WHICH GOES TO THE CITY ALSO DECREASES TO ZERO GRADUALLY OVER 15 YEARS. AFTER 15 YEARS, THE SECOND MORTGAGE IS COMPLETELY FORGIVEN, AND THE HOMEOWNER MAY RETAIN ALL THE APPRECIATION IN THE VALUE OF THE HOME. THESE FEATURES OF THE FINANCING CONTRIBUTE TO COMMUNITY STABILITY BY ENCOURAGING RESIDENTS TO REMAIN IN THEIR HOMES.

THE STATE OF NEW YORK PROVIDES BELOW-MARKET RATE PERMANENT MORTGAGE FINANCING THROUGH A CSHA MEMBER, THE STATE OF NEW YORK MORTGAGE AGENCY (SONYMA) TO EVERY NEHEMIAH PLAN HOME. SONYMA HAS SO FAR ALLOCATED OVER \$29 MILLION OF MORTGAGE FUNDS TO THE NEHEMIAH PLAN HOMES.

THE COMPONENTS OF THE ADMINISTRATION'S RECOMMENDATIONS THAT HAVE THE MOST DETRIMENTAL EFFECT ON STATE HFA OPERATIONS ARE:

- O INCREASING THE FHA MORTGAGE INSURANCE PREMIUM FROM 3.8 TO 5 PERCENT OF THE LOAN AMOUNT;**
- O REGULATORY CHANGES DISALLOWING THE FINANCING OF CLOSING COSTS FOR FHA LOANS;**
- O INCREASING THE VA GUARANTEE FEE FROM 1 PERCENT TO 2.5 PERCENT OF THE LOAN.**

WE OPPOSE EACH OF THESE CHANGES BECAUSE THEY WOULD INCREASE THE AMOUNT OF CASH THAT MODERATE AND LOWER INCOME HOME BUYERS WOULD NEED TO HAVE ON HAND AT THE TIME THEY PURCHASE THEIR HOME OR INCREASE THE MONTHLY COSTS OF CARRYING A FHA INSURED MORTGAGE FINANCED THROUGH ONE OF OUR AGENCIES. THEIR EFFECT WOULD BE DISPROPORTIONATELY FELT BY THOSE AT THE LOWEST END OF THE MARKET SERVED SINCE THESE ADDITIONAL COSTS COULD DISQUALIFY THE PROSPECTIVE BUYER RATHER THAN MERELY INCREASE COSTS ASSUMABLE UNDER ACCEPTED UNDERWRITING STANDARDS.

THE NEHEMIAH PLAN

THE NEHEMIAH PLAN COMBINES SEVERAL SOURCES OF FINANCING AND SUBSIDIES TO PROVIDE AFFORDABLE SINGLE FAMILY HOMES IN LARGE NUMBERS. THE PLAN HAS TRANSFORMED ONE OF THE WORST NEIGHBOR-

693 NEHEMIAH HOMES HAVE BEEN COMPLETED AND OCCUPIED, 179 ARE UNDER CONSTRUCTION, AND 241 MORE ARE PLANNED FOR 1987, ALL IN THE NEIGHBORHOOD OF BROWNSVILLE IN BROOKLYN. THE WAITING LIST FOR NEW NEHEMIAH HOMES INCLUDES OVER 5,000 FAMILIES. EAST BROOKLYN CHURCHES AND THE CITY OF NEW YORK PLAN TO EXPAND THE NEHEMIAH PROGRAM TO AREAS OF EAST NEW YORK AND OTHER NEIGHBORHOODS.

BEFORE THE NEHEMIAH PLAN HOMES WERE BUILT, THE BROWNSVILLE AREA CONSISTED PRIMARILY OF VACANT LOTS AND DILAPIDATED, ABANDONED BUILDINGS. THE NEHEMIAH PLAN HAS BEGUN TO TRANSFORM THIS DEPRESSED AREA INTO A STABLE, GROWING COMMUNITY OF HOMEOWNING FAMILIES.

THE FEDERAL GOVERNMENT COULD REPLICATE THE NEHEMIAH PLAN IN OTHER AREAS OF THE COUNTRY BY PROVIDING FUNDS FOR THE INTEREST-FREE, NON-AMORTIZING SECOND MORTGAGE AND/OR THE INTEREST-FREE REVOLVING CONSTRUCTION LOAN FUND. THESE FUNDS COULD BE GRANTED TO LOCALITIES WITH INCENTIVES FOR STATE AND LOCAL GOVERNMENTS AND PRIVATE NON-PROFIT ORGANIZATIONS TO PROVIDE ADDITIONAL SUBSIDIES. THE COUNCIL OF STATE HOUSING AGENCIES WELCOMES AN OPPORTUNITY TO NATIONALIZE A PROGRAM IN WHICH ONE OF ITS MEMBERS SO SUCCESSFULLY PARTICIPATES. THIS WOULD BE ACHIEVED BY THE INCLUSION OF SENATOR D'AMATO'S PLAN IN S. 258 IN THIS YEAR'S HOUSING BILL.

**FHA DEMONSTRATION PILOT PROGRAM
FOR HOME EQUITY CONVERSIONS FOR THE ELDERLY**

CSHA WELCOMES AND SUPPORTS THE EFFORTS THAT HAVE BEEN INITIATED IN CONGRESS TO AUTHORIZE A DEMONSTRATION HOME EQUITY CONVERSION PROGRAM FOR ELIGIBLE ELDERLY HOMEOWNERS. WE BELIEVE THAT THIS IS AN APPROPRIATE VEHICLE FOR PROVIDING ASSISTANCE TO SUCH HOMEOWNERS WHO MAY BE "HOUSE-RICH BUT "CASH-POOR", AND WHO, FOR MANY REASONS, MAY NOT BE ABLE OR WILLING TO AVAIL THEMSELVES OF OTHER HOUSING ALTERNATIVES. AS WITH ANY NEW OR EXPERIMENTAL LENDING ACTIVITY, SUCH A PILOT INSURANCE PROGRAM CAN SERVE TO DEMONSTRATE THE ISSUES THAT WILL NEED TO BE RESOLVED BEFORE BOTH PUBLIC AND PRIVATE LENDERS BECOME INVOLVED IN THIS ACTIVITY IN A SUBSTANTIAL WAY.

A CSHA MEMBER AGENCY, THE CONNECTICUT HOUSING FINANCE AUTHORITY (CHFA) IS THE LARGEST PUBLIC HOME EQUITY CONVERSION LENDER FOR THE ELDERLY; TO DATE HAVING CLOSED 128 LOANS AND COMMITTED OVER \$12.5 MILLION FOR BOTH CLOSED LOANS AND LOANS NOW IN PROCESSING. CHFA HAS COMMITTED FUNDS ON AN UNINSURED BASIS TO THIS PROGRAM AND HAS BEEN WILLING, AS A "LENDER" NOT SUBJECT TO THE SAME "BOTTOM LINE" PRESSURES AS A CONVENTIONAL INSTITUTION, TO ASSUME SOME OF THE RISKS THAT AN FHA PILOT PROGRAM WOULD SEEK TO INSURE.

FOR A CONVENTIONAL LENDER THE LARGEST RISK INVOLVED WITH THIS MORTGAGE INSTRUMENT IS THE PROSPECT OF COLLECTING THE OUT-

STANDING LOAN BALANCE AT THE END OF THE LOAN TERM. WITH A FIXED RATE LOAN THE RATE EXPOSURE WOULD NOT BE ANY DIFFERENT FROM THAT INVOLVED WITH ANY OTHER FIXED RATE LOAN OVER THE SAME TERM. DEPENDING UPON THE ACCOUNTING FOR AND THE PAYMENT OF INTEREST THE LENDER'S EXPOSURE CAN BE GREATER OR LESSER.

FOR THE BORROWER THE OBLVERSE RISK IS INVOLVED: THE PROSPECT OF PAYING OFF THE BALANCE OF THE LOAN AT THE END OF THE TERM AND THE IMPLICATIONS FOR CONTINUED OCCUPANCY. THE OPTIONS AVAILABLE TO THE BORROWER AT THAT POINT ARE RELATED TO THE LEVEL OF RISK THAT THE LENDER IS WILLING TO ASSUME. IMPORTANT FACTORS RELEVANT TO RISK FOR EACH PARTY ARE THE LIFE EXPECTANCY PROSPECTS FOR THE BORROWER, THE PROSPECTS FOR A CHANGE IN RESIDENCE DURING OR AT THE END OF THE MORTGAGE TERM, APPRECIATION IN COLLATERAL PROPERTY VALUE DURING THE TERM, AND TERM OVER WHICH THE LENDER IS WILLING TO ASSUME RISK.

THE CHFA REVERSE ANNUITY MORTGAGE PROGRAM (RAM) FORWARDS A MONTHLY PAYMENT TO THE BORROWER OVER A TEN YEAR PERIOD, AS A SUPPLEMENT TO INCOME. ALL BORROWERS OR CO-BORROWERS MUST BE AT LEAST 65 YEARS OF AGE AND THE HOUSEHOLD MUST BE BELOW 50 PERCENT OF THE AREA MEDIAN INCOME AS DESIGNATED BY HUD, THOUGH CHFA ADAPTS THESE INCOME STANDARDS FOR USE ON A COUNTY BASIS.

THE CHFA RAM PROGRAM HAS SOUGHT TO ADDRESS THE RISK FACTORS INVOLVED IN EQUITY CONVERSIONS IN THE FOLLOWING WAY:

O AS A LENDER:

- CHFA LENDS FOR PORTFOLIO AND IS THEREFORE NOT CONCERNED WITH A SECONDARY MARKET;
- CHFA LOOKS ONLY TO THE EVENTUAL SALE OF THE PROPERTY FOR RECOVERY OF THE OUTSTANDING BALANCE;
- LOAN MAXIMUMS ARE THE LESSER OF 80 PERCENT OF APPRAISED VALUE OR \$80,000;
- INTEREST DUE IS SUBTRACTED FROM THE PAYMENT BEFORE THE CHECK IS CUT AND FORWARDED TO THE BORROWER;
- AT THE END OF THE TEN YEAR PERIOD OR WHEN THE BORROWER IS NO LONGER A FULL-TIME RESIDENT OF THE PROPERTY THE LOAN BALANCE IS DUE;
- HOWEVER, CHFA WILL NOT CALL THE ACTUAL BALANCE DUE AT THAT POINT IF THE BORROWER IS ABLE AND WISHES TO MAINTAIN FULL-TIME OCCUPANCY;
- AT THIS POINT CHFA WILL CARRY THE LOAN BALANCE AS AN ASSET UNTIL FULL-TIME OCCUPANCY CEASES OR UNTIL THE DEATH OF THE BORROWER;
- CHFA WILL BE WILLING TO EXTEND FURTHER PAYMENTS TO THE BORROWED BASED ON 80 PERCENT OF THE APPRECIATED VALUE OF THE PROPERTY, AT A CURRENT RATE OF INTEREST PENDING AVAILABILITY OF FUNDS;
- IN NO CASE WILL CHFA FORCE THE SALE OF THE PROPERTY OR REFINANCING IN ORDER FOR THE LOAN BALANCE TO BE PAID AS LONG AS FULL-TIME OCCUPANCY IS MAINTAINED.

O FOR THE BORROWER:

- PAYMENT ON THE FIRST OF THE MONTH FOR TEN YEARS IS ASSURED;
- THE LOAN CAN BE DISCONTINUED OR PREPAID AT ANY POINT DURING THE TERM AT THE DISCRETION OF THE BORROWER;
- FULL-TIME OCCUPANCY FOR AS LONG AS DESIRED, WITHOUT THE NECESSITY OF REPAYMENT IS ASSURED;
- THERE IS THE POSSIBILITY OF CONTINUED PAYMENTS AT THE END OF THE TEN YEAR TERM.

CHFA FEELS THAT BORROWER INSECURITY ABOUT THEIR STATUS AT THE END OF THE LOAN TERM MUST BE ADDRESSED IN A SATISFACTORY MANNER IN ORDER FOR ANY HOME EQUITY CONVERSION PROGRAM TO BE SUCCESSFUL. THERE MAY BE A VARIETY OF WAYS TO INSURE LENDER RISK BUT IF THE HOMEOWNER/BORROWER IS NOT SATISFIED WITH THE LEVEL OF RISK REGARDING CONTINUED OCCUPANCY THE FUNDS WILL NOT BE BORROWED.

ANOTHER CSHA MEMBER, THE ARKANSAS DEVELOPMENT FINANCE AUTHORITY INITIATED A DEMONSTRATION OF A HOME EQUITY CONVERSION PROGRAM. THE DEMONSTRATION WAS BEGUN ABOUT TWO YEARS AGO IN ONE COUNTY OF THE STATE. PARTICIPANTS MUST BE 70 YEARS OF AGE AND HAVE AN INCOME LESS THAN 125% OF MEDIAN FOR A TWO PERSON HOUSEHOLD. THE BASIC CONCEPT IS THAT THE PARTICIPANT GRANTS THE STATE AUTHORITY A REMAINDER DEED TO THE PROPERTY WHICH CONVEYS TITLE WHEN THE OWNER DIES OR LEAVES THE PROPERTY FOR ANOTHER PERMA-

NENT LIVING ARRANGEMENT. IN EXCHANGE FOR THE DEED, THE OCCUPANT RECEIVES A MONTHLY ANNUITY CHECK FOR THE REST OF HIS LIFE (WHETHER IN THE HOME OR NOT), MAINTENANCE ON THE HOME IS PAID FOR BY ADFA AND TAXES, AND INSURANCE ARE PAID BY ADFA. A MARKETING PLAN WHICH UTILIZED PRINTED MATERIALS AND PUBLIC SERVICE TIME FROM LOCAL MEDIA GENERATED OVER 600 INQUIRIES.

THERE WERE VERY FEW OF THOSE WHO INQUIRED THAT WERE INTERESTED IN PARTICIPATING IN THE PROGRAM. ABOUT TEN PERCENT WERE INTERESTED OR QUALIFIED FOR PURSUING PARTICIPATION IN THE PROGRAM AFTER LEARNING OF THE GUIDELINES. THE SINGLE MOST OBJECTIONABLE ASPECT WAS GIVING UP OWNERSHIP OF WHAT IN MANY CASES WAS THEIR MOST VALUABLE ASSET. THE ATTACHMENT IS NOT ONLY A MONETARY ONE, THE FAMILY HOME HAS MANY PERSONAL AND SENTIMENTAL TIES WHICH MAKE IT DIFFICULT FOR ONE TO DEED THE HOME TO A STATE AGENCY.

OF THE TEN PERCENT WHO WERE INTERESTED IN PURSUING THE PROGRAM, THE SINGLE PROBLEM WHICH DISQUALIFIED THEM FROM PARTICIPATION WAS A VERY DILAPIDATED PIECE OF PROPERTY. THE HOUSES WERE IN WORSE PHYSICAL CONDITION THAN THE ELDERLY INHABITANTS. APPRAISERS OPINED THAT THE COST OF REPAIR OF THE PROPERTIES WAS EQUAL TO THE VALUE IN MANY CASES. THIS MEANT THAT THERE WOULD BE NO VALUE FROM WHICH AN ANNUITY COULD BE FUNDED.

THE MOST GLARING NEED DEMONSTRATED BY THE PROGRAM IS A HOME IMPROVEMENT PROGRAM TARGETED TO ELDERLY FIXED INCOME HOME-

OWNERS. IF SUCH A PROGRAM CAN BE TAKEN ADVANTAGE OF EARLY ENOUGH, THE EFFECT WOULD BE ONE OF PREVENTIVE MAINTENANCE SO THAT THE HOMES WILL NOT DETERIORATE TO THE POINT OF NO VALUE.

FOR THE BENEFIT OF THE COMMITTEE WE WILL PROVIDE REACTIONS TO THE DEMONSTRATION HOME EQUITY CONVERSION INSURANCE PROGRAM OUTLINED IN H.R. 4:

- O ONE OF THE STATED PURPOSES OF THIS DEMONSTRATION PROGRAM IS TO FOSTER THE INVOLVEMENT OF THE SECONDARY MORTGAGE MARKETS IN SUPPLYING CAPITAL FOR THIS LENDING. IT IS UNCLEAR HOW THIS WOULD WORK SINCE THERE IS TYPICALLY A LONG "PAY-OUT" PERIOD WITH RETURN REALIZED AT THE END OF THE TERM, AND BOTH THE END OF THE TERM AND THE PRINCIPAL TO BE RETURNED WOULD NOT BE UNIFORM.
- O THE INCLUSION OF A MANDATORY COUNSELING COMPONENT IS WISE, AS IS THE INCLUSION OF COUNSELING WITH REGARD TO THE IMPLICATIONS OF LOANS THAT GO BEYOND THE ACTUAL FINANCIAL TERMS OF THE INSTRUMENT SUCH AS TAX CONSEQUENCES, THE EFFECT ON ELIGIBILITY FOR OTHER GOVERNMENT BENEFIT PROGRAMS, AND OTHER CONSEQUENCES.
- O THE PLEDGE OF PROTECTION TO THE HOMEOWNER/MORTGAGOR IN THE EVENT OF THE DEFAULT BY THE LENDER IS AN IMPORTANT COMPONENT OF THE DEMONSTRATION PROGRAM. THE "PAY-OUT" TO THE MORTGAGOR BY THE MORTGAGEE IS AS AN ESSENTIAL

COMPONENT OF THIS TRANSACTION AS THE PAYBACK AT THE END OF THE TERM, UNLIKE CONVENTIONAL LENDING WHEREBY THE MORTGAGOR IS VIRTUALLY ASSURED OF THE AVAILABILITY OF FUNDS AT THE TIME OF CLOSING.

- O THE POSSIBILITY OF THE MORTGAGOR BEING REQUIRED TO PAY RENT TO FHA IS A NEGATIVE ASPECT THAT INCREASES THE RISK FOR THE BORROWER AND COULD DEPRESS PARTICIPATION. THIS COULD ADD A LIABILITY ONTO A LARGELY FIXED INCOME STREAM THAT COULD HAVE BEEN SUBJECT TO SUBSTANTIAL INFLATION EROSION SINCE THE TERM OF THE MORTGAGE BEGAN, AND MAY BE NEEDED BY A FRAILER MORTGAGOR TO PAY FOR OTHER SUPPORT SERVICES. AN ALTERNATIVE MAY BE TO HOLD THE BALANCE AS A LIEN AGAINST THE PROPERTY WITH THE INTEREST ACCRUING AND PAYABLE UPON THE OTHERWISE APPLICABLE CONDITIONS.
- O IT MAY BE APPROPRIATE TO CONSIDER LUMP SUM DISTRIBUTIONS AT CLOSING FOR ANY PURPOSES THE SECRETARY DEEMS APPROPRIATE SUCH AS LIEN LIQUIDATION, RETIREMENT OF MEDICAL BILLS, DEBT CONSOLIDATION, OR HOME IMPROVEMENTS. THIS WOULD BY DEFINITION REDUCE THE MONTHLY PAYMENT TO THE BORROWER, AND WOULD BE OFFERED AND EXPLAINED TO THE BORROWER AS AN OPTION.
- O IT MAY BE APPROPRIATE TO PROVIDE FOR A PAYMENT SCHEDULE THAT DOES INCREASE ANNUALLY TO COVER INCREASED COST OF LIVING, PROVIDED THAT THE TOTAL AMOUNT ADVANCED TO THE

**BORROWER DOES NOT EXCEED THE OTHER APPLICABLE LIMITS ON
MAXIMUM LOAN AMOUNTS.**

- O THE HOUSE LEGISLATION DOES NOT REQUIRE THAT BOTH SPOUSES,
WHO ARE OCCUPANTS OF THE PROPERTY, BE OVER 65 YEARS OF
AGE. IF CONTINUED OCCUPANCY OF THE PROPERTY IS TO BE
ASSURED TO THE OCCUPANTS, THE ACTUARIAL RISK OF THIS CAN
BE REDUCED BY REQUIRING EACH BE OF THE ELIGIBLE AGE.**

**CSHA AND ITS INDIVIDUAL MEMBER AGENCIES STAND READY TO ASSIST
THE CONGRESS IN DEVELOPING THIS DEMONSTRATION PROGRAM AND
FURTHER EXPLORING THE MEANS OF ENCOURAGING INCREASED PUBLIC AND
PRIVATE SECTOR INVOLVEMENT IN THIS LENDING ACTIVITY. FOR YOUR
INFORMATION, RHODE ISLAND, IN ADDITION TO CONNECTICUT AND
ARKANSAS, HAS AN ACTIVE HOME EQUITY CONVERSION PROGRAM.**

RENTAL HOUSING

HODAG, CDBG, UDAG FUNDING

**PROGRAMS SUCH AS THE HODAG, CDBG AND UDAG HAVE ALWAYS BEEN
AN INTEGRAL PART OF THE HOUSING PRODUCTION PROCESS FOR CSHA
MEMBERS. AS DISCUSSED EARLIER, THE DOUBLE WHAMMY OF THE FEDERAL
GOVERNMENT'S CONTINUING RETREAT FROM PROVIDING HOUSING TO LOW
INCOME FAMILIES AND INDIVIDUALS, AND THE ADVERSE EFFECTS OF THE
TAX REFORM MAKE THE AVAILABILITY OF THESE PROGRAMS CRITICAL TO
THE PRODUCTION OF LOW INCOME HOUSING.**

THE CDBG, UDAG AND THE HODAG PROGRAMS HAVE PROVIDED THE IMPETUS TO BUILD NEW OR REHABILITATE HUNDREDS OF THOUSANDS OF MULTI-FAMILY AND SINGLE FAMILY HOUSING UNITS THROUGHOUT THE UNITED STATES.

FOR EXAMPLE THE MICHIGAN HOUSING DEVELOPMENT AUTHORITY (MSHDA) ADMINISTERS THE FEDERAL SMALL CITIES CDBG PROGRAM FOR THE STATE OF MICHIGAN. SINCE PROGRAM INCEPTION IN 1982, IT HAS AWARDED NEARLY \$19.5 MILLION IN GRANT FUNDS TO THE SMALLER CITIES, TOWNSHIPS AND RURAL COMMUNITIES OF OUR STATE. OVER 4,700 UNITS OF HOUSING HAVE BEEN RENOVATED OR REPAIRED THROUGH THIS PROGRAM. NINETY-SEVEN PERCENT OF THE FAMILIES AND INDIVIDUALS ASSISTED UNDER THIS PROGRAM HAVE INCOMES WITHIN THE SECTION 8 GUIDELINES. THE AVERAGE INCOME OF HOUSEHOLDS ASSISTED UNDER THIS PROGRAM IS \$7,800. THE PROGRAM IS OF PARTICULAR BENEFIT TO FEMALE-HEADED HOUSEHOLDS AND THE ELDERLY AS 44 PERCENT OF THE HOUSEHOLDS ASSISTED ARE FEMALE-HEADED AND 37 PERCENT OF THE HOUSEHOLDS ARE ELDERLY. MOREOVER, NEARLY 10 PERCENT OF THE HOUSEHOLDS ASSISTED ARE HANDICAPPED. APPROXIMATELY 22 PERCENT OF THE HOUSEHOLDS ASSISTED ARE MINORITY HOUSEHOLDS.

IN ADDITION TO THE SMALL CITIES CDBG PROGRAM, MSHDA WORKS EXTENSIVELY WITH ENTITLEMENT COMMUNITIES TO HELP THEM IMPROVE THEIR HOUSING STOCK. MANY ENTITLEMENT COMMUNITIES USE THEIR CDBG UNITS AS CONSTRUCTION COST WRITE-DOWNS, TO ACQUIRE LAND FOR HOUSING, TO PROVIDE LOW INTEREST LOANS FOR LOW INCOME HOUSEHOLDS, ETC. THE CITY OF GRAND RAPIDS, FOR INSTANCE, IS USING CDGB FUNDS

IN CONJUNCTION WITH ZERO PERCENT INTEREST MSHDA FUNDS TO PROVIDE REHABILITATION LOANS TO LOW INCOME, HIGH RISK HOUSEHOLDS.

UDAGs AND HODAGs HAVE ALSO BECOME A VERY IMPORTANT PART OF THE LOW INCOME HOUSING FINANCE EQUATION IN MICHIGAN. MSHDA RECENTLY COMMITTED TO PROVIDE FINANCING FOR A HOUSING DEVELOPMENT IN DETROIT WITH A TOTAL COST OF OVER \$28 MILLION. WITHOUT A COMBINATION OF A \$2.5 MILLION UDAG, CDBG FUNDS AND TAX-EXEMPT BOND FINANCING, THIS PROJECT, WHICH WILL HAVE THE MAJORITY OF ITS 334 UNITS AFFORDABLE TO INDIVIDUALS WITH INCOMES AT OR BELOW THE STATE'S MEDIAN INCOME, WOULD NOT BE ECONOMICALLY FEASIBLE.

DESPITE THE DIFFICULTIES WE INITIALLY EXPERIENCED WITH THE HODAG PROGRAM WHEN IT WAS NEW, THIS HAS BEEN AN EXCELLENT PROGRAM FOR THE STATE OF MICHIGAN. THE HODAG STAFF IN BOTH WASHINGTON AND IN THE AREA OFFICES OF OUR HOME STATE HAVE PUT FORTH A TREMENDOUS EFFORT TO EDUCATE LENDERS, DEVELOPERS AND GOVERNMENT PERSONNEL ON HOW TO APPLY FOR AND PROCESS HODAG DEVELOPMENTS. AT MSHDA, WE HAVE EITHER FINANCED OR WILL BE PROVIDING FINANCING FOR 10 HODAG PROJECTS ENCOMPASSING NEARLY 1,300 UNITS. APPROXIMATELY 400 OF THESE UNITS WILL HAVE RENTS AFFORDABLE TO LOW AND VERY LOW INCOME FAMILIES EXCEEDING THE 20 PERCENT STATUTORY PROGRAM REQUIREMENT BY A SIGNIFICANT AMOUNT. WE ESTIMATE THAT THE DEVELOPMENT COST OF THESE UNITS MEANS ABOUT \$45 MILLION IN HOUSING INVESTMENT IN SOME OF OUR STATE'S MOST DISTRESSED AREAS. HODAG FUNDS TRANSLATE NOT ONLY INTO HOUSING UNITS BUT IN JOBS, ECONOMIC DEVELOPMENT AND TAX BASE STABILITY.

THE MICHIGAN EXAMPLE IS TYPICAL OF THE NEED FOR THESE PROGRAMS ON A NATIONAL LEVEL. THEY HAVE BECOME ESSENTIAL TO EFFORTS TO PROVIDE AFFORDABLE, SAFE, SANITARY AND DECENT HOUSING IN MICHIGAN AND THE NATION. IT IS IMPERATIVE THAT THE HOUSING BILL RE-AUTHORIZE THESE VITAL PROGRAMS AT LEVELS AT LEAST EQUIVALENT TO CURRENT AUTHORIZATION.

BOARD AND CARE HOMES (§ 232)

WHY BOARD AND CARE HOMES? THERE ARE PROBABLY AS MANY ANSWERS TO THIS QUESTION AS THERE ARE PEOPLE RENDERING OPINIONS. HOWEVER, FOUR GOOD REASONS ARE:

1. OUR POPULATION IS GROWING OLDER;
2. THE ELDERLY ARE MORE HEALTHY;
3. THE ELDERLY ARE STRONGER, BOTH ECONOMICALLY AND POLITICALLY;
4. IT HAS BEEN ESTIMATED THAT AT LEAST 10 PERCENT TO 12 PERCENT OF THE EXISTING NURSING HOME POPULATION DO NOT NEED TO BE RESIDING THERE.

MOST OF THE STATES DO NOT SUBSIDIZE BOARD AND CARE HOMES BUT IN MANY CASES IT SEEMS NECESSARY THROUGH THE UTILIZATION OF MEDICAID AND SOCIAL SECURITY TO ASSIST IN THE MONTHLY RENTAL CHARGES.

AS WE GROW OLDER, OUR INCOME DECLINES AND THE NEED FOR A TAX SHELTER OF HOMEOWNERSHIP DIMINISHES. THAT COUPLED WITH THE RIGORS OF KEEPING UP THE HOMEPLACE STARTS TAKING ITS TOLL.

A BOARD AND CARE HOME IS A POSSIBLE CHOICE. OTHER CHOICES WOULD BE A RETIREMENT SERVICE CENTER OR, OF COURSE, STAY IN THEIR LARGE THAN NEEDED HOME. RETIREMENT SERVICE CENTERS ARE HOUSING DESIGNED FOR THE ELDERLY BUT ARE REALLY FOR THE MIDDLE AND UPPER INCOME, WHEREAS BOARD AND CARE HOMES ARE FOR THE MIDDLE AND LOWER INCOME.

THE BOARD AND CARE HOME OCCUPANT, ALTHOUGH SOMEWHAT SLOWER PHYSICALLY, MUST BE IN REASONABLY GOOD HEALTH. THE OCCUPANT, BASED ON STATISTICS STANDS A GOOD CHANCE OF ADDING TEN ADDITIONAL YEARS TO HIS LIFE BY BEING IN A CONGREGATE HOUSING COMPLEX. HE CAN CERTAINLY EXPECT TO DECREASE THE LIKELIHOOD OF BEING CONFINED TO A NURSING HOME FACILITY FOR FIVE TO SEVEN YEARS. THE MEDICAL VALUE OF A BOARD AND CARE FACILITY IS PREVENTIVE MEDICINE.

THIS IS BASED ON:

- O LIVING IN A CONTROLLED ENVIRONMENT;
- O ELIMINATION OF ACCIDENTS OR CRIMINAL INVOLVEMENT;
- O INCREASED COMPANIONSHIP WITH OWN AGE GROUP;
- O 24-HOUR ON CALL TELEPHONE ASSISTANCE IN THE ROOMS;

- O CONSUMPTION OF DAILY FOOD REQUIREMENTS WITHOUT THE REQUIRED PREPARATORY EFFORTS INVOLVED;
- O A REGULARLY SCHEDULED MAID AND CLEANING SERVICE; AND
- O PLANNED ACTIVITIES PROMOTING INDEPENDENCE.

THIS FEATURE OF BOARD AND CARE FACILITIES PRESENTS A STRONG JUSTIFICATION FOR SOME MEDICAID REIMBURSEMENT FOR THE SERVICES PROVIDED.

THE OCCUPANT HAS A GREAT DEAL TO GAIN, BUT AS IN ANY LIFESTYLE CHANGE, A GREAT DEAL TO GIVE UP, SO THE DESIGN OF THE FACILITY IS EXTREMELY IMPORTANT. THE DESIGN SHOULD BE AS DEINSTITUTIONALIZED AS POSSIBLE. IDEALLY, A ONE STORY STRUCTURE IS BEST, BUT CERTAINLY NOT THE ONLY WAY.

A COMMON AREA WOULD BE PROVIDED TO INCLUDE A LIVING ROOM ATMOSPHERE, DINING ROOM, KITCHEN AND LAUNDRY. FURTHER ADDITIONS COULD BE EXERCISE ROOM, ARTS AND CRAFT ROOMS, BUT KEEP IN MIND THE RELATIONSHIP OF COST AND AFFORDABLE AND COMPETITIVE RENTS.

INDIVIDUAL ROOMS CAN BE DESIGNED FOR BOTH PRIVATE AND/OR SEMI-PRIVATE. THERE CAN BE PRIVATE BATHS, SEMI-PRIVATE BATHS, BUT NOT LESS THAN ONE FULL BATH FOR FOUR PEOPLE. THESE CHOICES SHOULD BE DIRECTED TO THE PEOPLE BEING SERVED, WHAT THEY CAN AFFORD AND ARE WILLING TO PAY.

BOARD AND CARE HOMES ARE REALLY A NEW PRODUCT, THEREFORE FINANCING OF THESE PROJECTS IS ALSO NEW. THE ONLY PROGRAM TODAY IS THE "HUD" 232 BOARD AND CARE FHA-INSURED PROGRAM. FNMA AND OTHER MORTGAGE INSURERS HAVE NOT APPROVED ANY OF THESE PROJECTS. THE 232 PROGRAM ALLOWS THE FOLLOWING:

- O 90 PERCENT LOAN-TO-VALUE RATIO LOANS;
- O 40-YEAR FULLY AMORTIZED LOANS;
- O NO PERSONAL LIABILITY; AND
- O BOND FINANCING CARRYING A MINIMUM OF AN "AA" RATING.

HOWEVER, THERE IS A BARRIER TO PARTICIPATING IN THIS PROGRAM. AS AN EXAMPLE, THERE WERE THREE PROJECTS LOCATED IN DIFFERENT AREAS OF ARKANSAS, SUBMITTED TO THE HUD AREA OFFICE FOR SAMA APPLICATION PROCESSING. ALL THREE PROJECTS WERE REJECTED BECAUSE THEY WERE DEFICIENT IN TERMS OF POTENTIAL MARKET. THIS AREA OFFICE BASED THEIR MARKET DEMAND, ASSUMING THAT 10 PERCENT OF THE PROJECTED PERSONS 80(+) LIVING ALONE AND 5 PERCENT OF THE PROJECTED PERSONS 80(+) LIVING IN TWO OR MORE PERSON HOUSEHOLDS WOULD BE AVAILABLE FOR BOARD AND CARE HOMES. THE CRITERIA FOR DETERMINING THAT THE MARKET FOR BOARD AND CARE HOMES IS PRINCIPALLY AMONG PERSONS 80 YEARS OF AGE AND OLDER CAME FROM HUD'S WASHINGTON OFFICE EMAD DIVISION.

THE ARKANSAS DEVELOPMENT FINANCE AUTHORITY AND THE STATE OFFICE OF LONG-TERM CARE DISAGREE WITH THIS ANALYSIS AND BELIEVE THE MARKET SHOULD BE EXPANDED TO INCLUDE PERSONS 65 YEARS AND OLDER. STATISTICS SHOW THAT THE 80(+) POPULATION COHORT IS THE HIGHEST RISK FOR REQUIRING NURSING HOME AND, IN FACT, THE PERCENTAGE INCREASES DRAMATICALLY OVER THE 70 TO 80 YEAR OLD COHORT. THE BEST WAY TO REDUCE THAT PHENOMENON IS TO INITIATE VIABLE INDEPENDENT LIVING ARRANGEMENTS FOR THE AGE COHORTS UNDER 80 YEARS. SO, THE MARKET FOR BOARD AND CARE HOMES SHOULD INCLUDE ALL AGES WHICH ARE WITHIN 5 TO 10 YEARS OF BEING AT RISK FOR REQUIRING NURSING HOME CARE.

BOARD AND CARE FACILITIES ARE NOT HEALTH CARE FACILITIES LIKE NURSING HOMES. THEIR PRINCIPAL PURPOSE IS TO PROVIDE AN ALTERNATIVE FOR PERSONS WHO MUST LEAVE THEIR HOMES BUT OTHERWISE HAVE NO ALTERNATIVE THAN A NURSING HOME. FULL-TIME SKILLED MEDICAL CARE IS NOT A PART OF THE SERVICES OFFERED. THEREFORE, THE REQUIREMENT THAT DEVELOPERS OBTAIN A CERTIFICATE OF NEED FROM THE OFFICES OF LONG-TERM CARE IS NOT APPROPRIATE.

AS AMERICA AGES, AND THE NEED FOR HOUSING VARIOUS COMPONENTS OF THE ELDERLY POPULATION INCREASES, THIS PROGRAM WILL BECOME MORE IMPORTANT. WE URGE THAT IT, ALONG WITH THE SUGGESTED CHANGES, BE INCLUDED IN THIS YEAR'S HOUSING BILL AND EVERY ONE THEREAFTER.

RETAINING STOCK FOR LOW INCOME FAMILIES

ACCORDING TO A JUNE 1986 GENERAL ACCOUNTING OFFICE STUDY DONE FOR CONGRESSMAN BARNEY FRANK, CHAIRMAN OF THE U.S. HOUSE GOVERNMENT OPERATIONS SUBCOMMITTEE ON EMPLOYMENT AND HOUSING, THERE ARE 164,000 UNITS OF SECTION 236 INSURED AND ASSISTED UNITS THAT COULD PREPAY THEIR MORTGAGES AND BE LOST FROM THE SUBSIDIZED HOUSING INVENTORY BY FY 1995. WHILE THE SPECIFIC FIGURES ARE NOT AVAILABLE, A SIGNIFICANT NUMBER OF UNINSURED SECTION 236 ASSISTED UNITS WILL BE REACHING A SIMILAR POSITION WITHIN THIS TIME FRAME. THE FACT THAT UNINSURED STATE AGENCY FINANCED PROJECTS GENERALLY WERE SUBJECTED TO MORE STRINGENT UNDERWRITING CRITERIA INCREASES THE POTENTIAL THAT THESE PROJECTS WILL BE ATTRACTIVE TO THE "MARKET", THEREBY INCREASING THE NUMBER OF LOW INCOME UNITS LOST.

IN THE AREA OF SECTION 8 NEW CONSTRUCTION, SOME STATES ARE ALREADY FACING PREPAYMENT OF MORTGAGE LOANS. THEY ARE FINDING THEMSELVES VICTIMS OF THEIR OWN GOOD UNDERWRITING, AND IN SOME CASES A STRONG DESIRE BY HUD TO DIVEST ITSELF OF EXPENSIVE SECTION 8 CONTRACTS. BY NOT DEVELOPING STRONG INCENTIVES FOR OWNERS TO STAY WITH THE SECTION 8 PROGRAM, WE RUN THE RISK OF LOSING A PERCENTAGE OF THE PORTFOLIO. MANY FEEL, IN FACT, THAT HUD IS ACTIVELY SEEKING WAYS AND MEANS TO ENCOURAGE OWNERS TO OPT OUT OF THE PROGRAM.

CSHA AND OTHERS, THROUGH INTERNAL TASK FORCES AND VARIOUS OTHER MEANS, ARE SEEKING WAYS TO LOCK-IN OWNERSHIP OF SUBSIDIZED

INVENTORY FOR THE CONTINUED BENEFIT OF LOW AND MODERATE INCOME PERSONS. WE MUST TAKE EVERY STEP NECESSARY TO STEM THE POTENTIAL EROSION OF LOW INCOME INVENTORY. HUD SHOULD BE REQUIRED TO EXPLORE INCENTIVES FOR OWNERS OF HUD RENTAL PROJECTS (BOTH INSURED AND UNINSURED) WHICH HAVE EXPIRING USE RESTRICTIONS. OTHER SUGGESTED PROGRAMS INCLUDE THE USE OF THE NEW 4 PERCENT TAX CREDITS FOR EXISTING HOUSING, EXPANSION OF THE FLEXIBLE SUBSIDY PROGRAM, AND OTHER POTENTIAL LEGISLATION WHICH WOULD PROVIDE INCENTIVES FOR OWNERSHIP TO REMAIN IN THE LOW INCOME MARKET. A SPECIFIC SECTION TO H.R. 4 ADDRESSES THIS POINT THROUGH THE CREATION OF A MULTIFAMILY HOUSING PRESERVATION FUND (SPONSORED BY REP. BARNEY FRANK, D-MA.). CSHA URGES THE SENATE TO ADOPT A SIMILAR PROVISION IN ITS HOUSING BILL.

UNDER THE "DeWILDE AGREEMENTS," HUD RESERVED A "POOL" OF SECTION 236 CONTRACT AND BUDGET AUTHORITY FOR PROJECTS FINANCED BY STATE MORTGAGEES. SINCE THE ORIGINAL AGREEMENT IN 1975, THESE POOLS HAVE BEEN USED TO SUBSIDIZE MORTGAGE INCREASES AND PROVIDE ADDITIONAL UNITS UNDER THE RENTAL ASSISTANCE PAYMENT (RAP) PROGRAM. IN SEPTEMBER OF 1986, U.S. SENATE COMMITTEE REPORT LANGUAGE RELATING TO THE FY 1987 OMNIBUS APPROPRIATIONS BILL DIRECTED HUD TO FUND STATE AGENCY REQUESTS FOR "POOL" SUBSIDIES FOR MORTGAGE INCREASES AND RAP/RENT SUPPLEMENT UNITS WITHIN 45 DAYS OF APPLICATION.

APPLICABLE TO AT LEAST ONE-HALF DOZEN STATE AGENCIES, THIS FUND CONSISTS OF VARYING AMOUNTS OF INTEREST REDUCTION ANNUAL

CONTRACT AUTHORITY SET ASIDE TOTALING SEVERAL MILLION DOLLARS. CSHA, LED BY THE MICHIGAN, NEW YORK, NEW JERSEY, VIRGINIA, AND MASSACHUSETTS AGENCIES, HAS BEEN AT THE FOREFRONT OF EFFORTS TO DETERMINE AN AGREEMENT FOR THE USE OF THESE FUNDS. THE PREVIOUSLY DISCUSSED DECLINING NUMBER OF TOOLS AVAILABLE TO STATE AGENCIES TO HELP MAINTAIN LOW INCOME OCCUPANCY, NECESSITATES THAT THE MAXIMUM FLEXIBILITY BE INCORPORATED INTO THE AGREED UPON USES OF THIS FUND. STATE AGENCIES HAVE PROPOSED AND REQUIRE THE ABILITY TO USE THE FUNDS AS FOLLOWS:

- O THE PROVISION OF ADDITIONAL RENT SUPPLEMENT AND RENTAL ASSISTANT PAYMENT UNITS.
- O PROVIDE FOR A METHOD OF PAYMENT IN MEETING THE 10 PERCENT MATCH FOR RAP AND RENT SUPPLEMENT.
- O SECTION 236 NON-INSURED MORTGAGE INCREASES.
- O SECOND MORTGAGE APPLICATION.
- O ADDITIONAL SECTION 236 SUBSIDY IN PARTIALLY ASSISTED PROJECTS.
- O POTENTIAL MORTGAGE TERM EXTENSIONS.
- O OPERATING LOSS LOANS.

DURING THE 99TH CONGRESS THIS COMMITTEE AT THE URGING OF SENATOR D'AMATO (R-NY) REQUIRED IN H.R. 5313 THAT HUD IMMEDIATELY RELEASE 236 FUNDS. THE REPORT LANGUAGE (SEE REPORT 99-487, CALENDAR NO. 992, PAGE 10) SHOULD BE INCLUDED IN ANY BILL PASSED THIS YEAR. SUCH FUNDS SHOULD BE RELEASED IMMEDIATELY FOR ANY OR ALL OF THE PURPOSES OUTLINED ABOVE.

RENTAL ASSISTANCE PAYMENT (RAP) AND RENT SUPPLEMENT (RS) ARE THE TWO BASIC TYPES OF DEEP SUBSIDY UTILIZED IN THE 236 HOUSING PROGRAM. RENT SUBSIDIES ARE PROVIDED BY HUD DIRECTLY TO THE OPERATING ACCOUNTS OF EACH CONTRACTED DEVELOPMENT. RAP AND RENT SUPPLEMENT PAY THE DIFFERENCE BETWEEN 30 PERCENT OF A QUALIFIED HOUSEHOLD'S ADJUSTED INCOME AND THE 236 BASIC RENT. THE OVERALL VALUE OF THESE RAP/RS SUBSIDIES HAVE BEEN REDUCED BECAUSE AMENDMENTS TO THE CONTRACTS HAVE NOT KEPT PACE WITH INCREASING COSTS. RECENTLY HUD HAS AMENDED THE FUNDING MECHANISM FOR THESE PROGRAMS BASED UPON LEGISLATION TO REQUIRE THAT OWNERS PAY 10 PERCENT OF PROJECTED SHORTFALLS IN RAP/RS CONTRACTS. OWNERS HAVE NOT AGREED TO FUND THIS DIFFERENCE. IN FACT, NON-PROFIT SPONSORS DO NOT HAVE THE MEANS TO FUND THIS PORTION. IN BOTH INSTANCES THE END RESULT IS A REDUCTION IN THE NUMBER OF LOW INCOME UNITS.

TO STEM THIS EROSION, ANY HOUSING BILL PASSED BY THE 100TH CONGRESS SHOULD INCLUDE SUFFICIENT FUNDING FOR THE RAP/RS PROGRAM SO THAT CURRENT CONTRACTS CAN BE MET. THE ACCOMPANYING REPORTS SHOULD REQUIRE HUD TO CONTINUE TO LIVE UP TO ITS OBLIGATIONS WITH RESPECT TO THIS PROGRAM.

FLEXIBLE SUBSIDY PROGRAM

THE FLEXIBLE SUBSIDY PROGRAM IS ANOTHER VALUABLE PROGRAM THAT PROVIDES TWO BENEFITS TO STATE AGENCIES WITH SECTION 236 PROJECTS. IT PROVIDES DEFERRED (1 PERCENT) LOANS FOR NEEDED CAPITAL REPAIRS AND OTHER PROJECT NEEDS AND EXTENDED LOCK-INS WHICH ASSURES CONTINUED AVAILABILITY OF NEEDED LOW AND MODERATE INCOME HOUSING UNITS FOR THE REMAINING BALANCE OF THE MORTGAGE TERM. MASTER CONTRACTS ENTERED INTO IN 1984 HAVE BEEN PARTIALLY FUNDED BUT THE REMAINING FUNDS HAVE NOT BEEN ALLOCATED BECAUSE HUD HAS SEVERELY DELAYED ITS PROCESSING ON A NUMBER OF AGENCIES' REQUESTS.

IN ORDER TO ASSIST THEIR TROUBLED PROJECTS, STATE AGENCIES NEED ASSURANCE FROM HUD THAT PROGRAM GUIDELINES AND DEPARTMENTAL PROCEDURES WILL NOT IMPEDE THEIR ABILITY TO SPEND FLEXIBLE SUBSIDY FUNDS. AGENCIES WOULD ALSO LIKE ASSURANCES THAT A PORTION OF THE FLEXIBLE SUBSIDY FUNDS BE PROVIDED EACH YEAR TO UNINSURED PROJECTS IN ORDER TO ASSIST THE MOST TROUBLED STATE AGENCY PROJECTS. THE STATE AGENCY PORTION SHOULD EQUAL THE PERCENTAGE OF UNINSURED SECTION 236 UNITS TO THE TOTAL UNIVERSE OF SECTION 236 UNITS (THIS CONCEPT ADOPTED BY THEN SENATE BANKING CHAIRMAN GARN AND SENATORS D'AMATO AND LAUTENBERG IN A SENATE COLLOQUY ON JUNE 21, 1983 (CONGRESSIONAL RECORD, PAGE S 8792)). WE ASK THAT THESE CONSIDERATIONS BE INCORPORATED INTO THIS COMMITTEE'S HOUSING BILL.

ADMINISTRATIVE FEES

STATE HOUSING FINANCE AGENCIES, WHICH IN SOME CASES ARE PUBLIC HOUSING AUTHORITIES FOR PURPOSES OF THE SECTION 8 EXISTING PROGRAM, SUPPORT THOSE SECTIONS OF H.R. 4 RELATING TO ADMINISTRATIVE FEES PAID TO PUBLIC HOUSING AUTHORITIES (PHA'S) FOR ADMINISTERING THE SECTION 8 EXISTING RENTAL ASSISTANCE CERTIFICATE AND VOUCHER PROGRAMS. SECTIONS 232 (A) AND SECTIONS 235(E) OF H.R. 4 PROVIDE THAT ADMINISTRATIVE FEES SHALL BE AT THE PERCENTAGE AND CALCULATED BY THE SAME METHOD AT THE RATE AND IN THE MANNER ESTABLISHED BY HUD IN EFFECT ON JANUARY 1, 1985. THIS MEANS THAT THE ADMINISTRATIVE FEE IS SET AT 8.5 PERCENT AS OPPOSED TO 7.65 PERCENT CURRENTLY IN FORCE FOR VOUCHERS. WE APPLAUD THE COMMITTEE FOR ITS STAND ON THIS ISSUE. IN ADDITION, WE URGE THAT THE HOUSE IN ITS BILL PROVIDE THAT PHA'S BE ALLOWED TO ASSIST IN THE ESTABLISHMENT OF PROGRAM GUIDELINES, THUS ELIMINATING SOME UNNECESSARY PAPERWORK AND EFFECTUATE A MORE TIMELY IMPLEMENTATION.

HUD REDUCED THE SECTION 8 ADMINISTRATIVE FEE FOR CERTIFICATES ON JULY 1, 1985 FROM 8.5 PERCENT TO 7.65 PERCENT. THAT REDUCTION IN AND OF ITSELF RESULTED IN ECONOMIC STRESS ON PUBLIC HOUSING AUTHORITIES (AGAIN, INCLUDING STATE HOUSING FINANCE AGENCIES) ADMINISTERING PROGRAMS STATEWIDE. BUT THE REDUCTION TO 7.65 PERCENT IS ONLY PART OF THE REVENUE PROBLEM FOR ADMINISTERING AGENCIES. THAT REDUCTION MUST BE VIEWED IN LIGHT OF THREE OTHER FACTORS: THE INCREASE IN VOUCHERS AND THE CORRESPONDING DECREASE

IN CERTIFICATES, THE DECREASE IN FAIR MARKET RENTS (FMR) AND CONTINUOUS REVISIONS TO PROGRAM RULES AND REGULATIONS MAKING THE PROGRAM MORE COMPLEX AND DIFFICULT TO ADMINISTER. WHEN THESE THREE FACTORS ARE CONSIDERED, PUBLIC HOUSING AGENCIES MUST HAVE THE 8.5 PERCENT FEE FOR CERTIFICATES TO PRODUCE SUFFICIENT REVENUES TO EFFECTIVELY OPERATE AND MANAGE THE PROGRAMS.

THE IMPACT OF THE INCREASING USE OF VOUCHERS AND THE LOWERING OF FMR'S RESULTS IN SIGNIFICANT REVENUE LOSSES TO THE PHA'S. AS STATED EARLIER, PHA'S CURRENTLY RECEIVE ONLY A 6.5 PERCENT ADMINISTRATIVE FEE PER VOUCHERS. HUD IS PHASING IN VOUCHERS AS CONTRACTS FOR CERTIFICATES LAPSE. WHILE VOUCHERS ARE INTENDED TO BE MORE COST-EFFICIENT TO ADMINISTER, IT IS THE EXPERIENCE OF HFA'S THAT THEY CANNOT BE ADMINISTERED AT THE 6.5 PERCENT LEVEL. THIS MEANS THAT A HFA OPERATING BOTH A VOUCHER AND A CERTIFICATE PROGRAM MUST USE ADMINISTRATIVE FEES EARNED ON THE CERTIFICATE PROGRAM TO SUBSIDIZE THE VOUCHER PROGRAM. WITH THE PHASE-OUT OF CERTIFICATES, HUD IS EFFECTIVELY REDUCING INCOME TO PHA'S WHILE SIMULTANEOUSLY INCREASING COSTS TO HFA'S BY PHASING IN VOUCHERS. HFA'S REQUIRE AN 8.5 PERCENT ADMINISTRATIVE FEE ON CERTIFICATES TO OFFSET THIS REVENUE LOSS. CSHA ALSO SUPPORTS AN INCREASE IN THE VOUCHER ADMINISTRATIVE FEE TO 8.5 PERCENT SO THAT THE VOUCHER PROGRAM CAN "PAY ITS OWN WAY."

THE ADJUSTMENTS IN FAIR MARKET RENTS THAT MANY STATE AGENCIES HAVE EXPERIENCED OVER THE PAST YEAR ALSO ADVERSELY IMPACTS UPON THE REVENUES REQUIRED TO RUN THE PROGRAM. FOR STATE HOUSING

FINANCE AGENCIES WHICH OFTEN OPERATE THE SECTION 8 PROGRAM STATE-WIDE AND IN THE MORE RURAL, POORER AREAS OF A STATE, THE IMPACT IS MOST SIGNIFICANT. IN THESE AREAS, FAIR MARKET RENTS HAVE GENERALLY DECREASED. SINCE THE ADMINISTRATIVE FEE IS A PERCENT OF THE FMR, A DECREASE IN THE FMR RESULTS IN A DECREASED ADMINISTRATIVE FEE TO THE HFA. THIS IS PARTICULARLY ONEROUS BECAUSE IT IS THESE VERY AREAS, THE RURAL POOR AREAS, THAT ARE THE MOST EXPENSIVE HFA'S TO SERVE. TRAVEL AND TRANSPORTATION COSTS ARE HIGHER AS ARE PERSONNEL COSTS BECAUSE IT TAKES MORE PEOPLE TO SERVE FEWER CERTIFICATE OR VOUCHER HOLDERS AND BECAUSE OF THE GREATER GEOGRAPHICAL TERRITORY THAT MUST BE COVERED. THERE ARE NO COST-EFFICIENT ALTERNATIVES FOR THOSE AREAS. IF STATE HOUSING FINANCE AGENCIES COULD NOT SERVE THE AREAS, THOSE AREAS WOULD GO UNSERVED. FOR THIS REASON, HFA'S REQUIRE AN 8.5 PERCENT ADMINISTRATIVE FEE ON CERTIFICATES AND VOUCHERS TO OFFSET THESE PROGRAM EXPENSES.

FINALLY, PROGRAM EXPENSES HAVE BEEN DRIVEN UP FOR OTHER REASONS. OPERATING COSTS HAVE RISEN ACROSS THE BOARD FROM AUTOMOBILES TO COMPUTER SERVICES. FINALLY, HFA'S ARE NOW REQUIRED TO UNDERGO AN AUDIT ON A YEARLY BASIS AS OPPOSED TO EVERY OTHER YEAR. THE COST OF SUCH AUDIT IN CASH OUTLAYS AND STAFF TIME IS SIGNIFICANT. IT CAN ONLY BE EXPECTED THAT ADMINISTRATIVE COSTS WILL CONTINUE TO ESCALATE. WITHOUT AN 8.5 PERCENT ADMINISTRATIVE FEE OR WITH ANY FURTHER REDUCTION OF ADMINISTRATIVE FEES, HFA'S MAY BE UNABLE TO OPERATE THE SECTION 8 EXISTING PROGRAM. ULTIMATELY, IT IS THE POOR AND THE POORLY HOUSED WHO WILL SUFFER THE

GREATEST FROM ANY FURTHER REDUCTION.

FAIR MARKET RENTS

THE SETTING OF FAIR MARKET RENT (FMR) LEVELS IN THE PAST FEW YEARS HAS CAUSED GRAVE PROBLEMS IN MANY STATES. THE FIRST IS HUD'S UNWILLINGNESS AND INABILITY TO FAIRLY REFLECT MARKET RENTAL CONDITIONS HAS SEVERELY IMPACTED THE SECTION 8 EXISTING HOUSING PROGRAM. HUD CHANGED TO AN ELABORATE AND EXPENSIVE METHODOLOGY TO DETERMINE FMR'S, RESULTING IN THE REDUCTION OF FMR'S IN AREAS WHERE CLEARLY THIS SHOULD NOT BE THE CASE BASED ON LOCAL MARKET CONDITIONS.

FOR INSTANCE, FAIR MARKET RENTS PUBLISHED IN 1986 WERE DRASTICALLY REDUCED. FOR EXAMPLE, IN MICHIGAN ABOUT 50 PERCENT OF THE RENTS PUBLISHED BY HUD DECREASED OR REMAINED AT 1985 LEVELS. IN TWO COUNTIES, MACKINAC AND CHIPPEWA, THE TWO BEDROOM RENT DECREASED BY \$49. THIS DECREASE ALONG WITH UTILITY ALLOWANCE INCREASES RESULTED IN A \$71 CONTRACT RENT CHANGE. THIS MEANS THE HOUSEHOLD MUST FIND A TWO BEDROOM UNIT THAT RENTS FOR \$230; THIS \$71 DECREASE WOULD SUBSTANTIALLY IMPACT HOUSING QUALITY AND TENANT CHOICE.

SECONDLY, BY PROGRAM DESIGN HUD MUST REVIEW AND PUBLISH FAIR MARKET RENTS ON AN ANNUAL BASIS. THIS PRACTICE HAS NOT ALWAYS BEEN ADHERED TO. FOR INSTANCE, IN 1985 FMR'S WERE NOT PUBLISHED IN OCTOBER, THEY WERE WITHHELD UNTIL APRIL OF 1986 WHEN HALF OF THE

SCHEDULED RENTS WERE PUBLISHED. THE REMAINING RENTS WERE PUBLISHED IN AUGUST OF 1986. ANNUAL ADJUSTMENT FACTORS ARE ALSO DELAYED UNNECESSARILY.

THIRDLY, AS FMR'S DECREASE FEWER OPERATING MONIES ARE GENERATED TO OFFSET HFA COSTS.

IN ORDER TO ALLEVIATE THESE PROBLEMS CONGRESS SHOULD INSTRUCT HUD TO CONDUCT ACCURATE AND CONCISE MARKET STUDIES ANNUALLY TO DETERMINE FAIR MARKET RENTS AND INSTRUCT IT THAT IF RENTS SHOULD DECREASE IN A PARTICULAR AREA FOR A SPECIFIC UNIT SIZE AND/OR TYPE, NOT TO REDUCE THE FMR BUT HOLD HARMLESS THE CURRENT FMR.

IN ADDITION, HUD SHOULD BE REQUIRED TO PUBLISH RENTS ON THE SAME DATE ANNUALLY AND A REALISTIC COMMENT PERIOD SHOULD BE ESTABLISHED WITHIN WHICH TO CHALLENGE PROPOSED RENTAL CHANGES.

COMPARABILITY

THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT IS REQUIRING THAT ALL SECTION 8 NEW CONSTRUCTION/SUBSTANTIAL REHAB PROJECTS SUBMIT TO A COMPUTATION METHODOLOGY FOR ANNUAL RENT ADJUSTMENTS WHICH, IF APPLIED, WOULD RESULT IN RENT ROLLBACKS FOR MANY PROJECTS AND NO INCREASES FOR MANY (OR POSSIBLY MOST) OTHER PROJECTS. WHILE IT APPEARS TO BE A HUD OBJECTIVE TO ACCOMPLISH COMPARABILITY AND ACHIEVE ROLLBACKS ON A NATIONAL SCALE, AN ANALYSIS OF THE HOUSING ASSISTANCE PAYMENTS CONTRACT, THE ANNUAL

CONTRIBUTIONS CONTRACT, THE APPLICABLE HOUSING ACT AND HUD'S REGULATIONS RELATIVE TO THE SECTION 8 PROGRAM HAS LED MANY TO THE CONCLUSION THAT RENT ROLLBACKS COULD NOT BE LEGALLY JUSTIFIED UNDER ANY CIRCUMSTANCES OTHER THAN THE PUBLICATION IN THE FEDERAL REGISTER BY HUD OF A NEGATIVE AUTOMATIC ANNUAL ADJUSTMENT FACTOR NUMBER. IN ADDITION, THE AREA OFFICES RESPONSIBLE FOR ACCOMPLISHING COMPARABILITY ARE NOT ACTING UNIFORMLY, CREATING GREAT CONFUSION AND CONCERN AMONGST CSHA MEMBERS AS THEY ATTEMPT TO DEAL WITH THIS ISSUE.

LITIGATION HAS BEEN INITIATED IN THE U.S. COURT OF CLAIMS IN WASHINGTON, DC, AGAINST HUD BY 179 HUD-FINANCED PROJECT SPONSORS. THE PLAINTIFFS CLAIM THAT HUD'S ACTIVITIES RELATIVE TO THE RENT ROLLBACKS CONTRAVENE THE FEDERAL ADMINISTRATIVE PROCEDURE ACT, CONTRACTS BETWEEN THE PLAINTIFFS AND HUD, AND ARE CONTRARY TO THE APPLICABLE HOUSING ACT AS WELL AS HUD REGULATIONS WHICH IMPLEMENT THAT ACT.

WE ASK THIS COMMITTEE TO DIRECT HUD TO REFRAIN FROM FURTHER ACTIONS ON THE ISSUE OF COMPARABILITY OF RENTS IN SECTION 8 PROJECTS UNTIL THE ISSUE CAN BE STUDIED IN DEPTH. THE QUESTION IS REALLY NOT WHETHER PROJECT RENTS ARE COMPARABLE TO OTHER RENTS IN THE AREA BUT WHETHER THE RENTS ARE SUFFICIENT TO MEET THE REASONABLE OPERATING COSTS OF THE PROJECT. IF THEY ARE NOT, OWNERS WILL NOT BE WILLING TO MAINTAIN THESE UNITS FOR LOW INCOME TENANTS.

HOUSING FINANCE AGENCIES WERE STRINGENT IN THEIR UNDERWRITING CRITERIA IN DEVELOPING THEIR PROJECTS AND MOST REQUIRED A LIMITED RETURN ON EQUITY EVEN BEFORE HUD MANDATED IT. AGENCIES CLOSELY MONITOR THE OPERATING COSTS OF THE PROJECTS THEY FINANCED AND HAVE THE ADVANTAGE OF COMPARING THESE COSTS WITH OTHERS STATE-WIDE. CSHA AND ITS MEMBERS HAVE BEGUN A DETAILED STUDY OF THE COMPARABILITY ISSUE. WE ASK THAT THIS COMMITTEE REQUIRE HUD TO WORK WITH CSHA, ITS MEMBERS AND OTHER INTERESTED PARTIES TO ESTABLISH A FAIR AND WORKABLE PROCEDURE TO ASSURE BOTH THE FINANCIAL VIABILITY AND THE LOW INCOME CHARACTER OF THESE DEVELOPMENTS.

CONGREGATE HOUSING SERVICE PROGRAMS

THE CONGREGATE HOUSING SERVICES PROGRAM (CHSP) WAS AUTHORIZED AND FUNDED UNDER TITLE IV OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1978 (92 STAT 2080, 42 USC 5301). THE CHSP IS BASED ON THE PREMISE THAT THE USE OF APPROPRIATE COMMUNITY-BASED SUPPORTIVE SERVICES, INCLUDING MEALS AND ASSISTANCE WITH ACTIVITIES OF DAILY LIVING, CAN HELP FRAIL ELDERLY AND HANDICAPPED PERSONS TO CONTINUE TO LIVE INDEPENDENTLY, THEREBY AVOIDING PREMATURE INSTITUTIONALIZATION. AS LEGISLATED BY CONGRESS, THIS PROGRAM REPRESENTED THE FIRST TIME HUD LINKED A SUPPORTIVE SERVICE PACKAGE WITH HUD-SUPPORTED HOUSING. THIS PROGRAM, IN ITS "PILOT" OR "DEMONSTRATION" FORM, HAS FUNDED SERVICES AT SOME 63 PUBLIC HOUSING AUTHORITY AND "SECTION 202" SPONSORED HOUSING PROJECTS (STATE HOUSING FINANCE AGENCY FINANCED PROJECTS ARE NOT ALLOWED TO PARTICIPATE). H.R. 4 PROPOSES CONTINU-

ED FUNDING OF PROJECTS PRESENTLY UNDER CONTRACT, AS S. 2507 DID LAST YEAR. H.R. 4 WOULD ALLOW AN APPROPRIATION OF \$10 MILLION.

CSHA SUPPORTS THE CONCEPT OF PROVISION OF SERVICES IN PROJECTS FOR THE ELDERLY AND HANDICAPPED AND, IN FACT, IS JUST COMPLETING, IN COLLABORATION WITH THE NATIONAL ASSOCIATION OF STATE UNITS ON AGING, AN 18-MONTH STUDY OF ELDERLY HOUSING AND SUPPORT SERVICES INITIATIVES OF STATE HOUSING FINANCE AGENCIES AND STATE UNITS ON AGING. A MAJOR PRODUCT OF THIS STUDY WILL BE A SUPPORT SERVICES MODEL BASED ON SUCCESSFUL PROGRAMS IN NEW JERSEY, MARYLAND AND MASSACHUSETTS THAT COULD BE MADE REPLICABLE IN LOWER INCOME PROJECTS THROUGHOUT THE COUNTRY. THIS MODEL WILL PRESENT THE MOST COST-EFFECTIVE SYSTEM OF ACCESSING AND PROVIDING SERVICES BUT IT WILL BY NECESSITY REQUIRE SOME LEVEL OF FUNDING FROM STATE AND FEDERAL GOVERNMENTS.

CSHA SUPPORTS FUNDING THROUGH FY 1988 FOR CONGREGATE HOUSING SERVICES FOR PROJECTS ALREADY UNDER CONTRACT AND WE REQUEST THAT THIS DEMONSTRATION ALLOW HFA-FINANCED PROJECTS TO COMPETE FOR ANY REMAINING FUNDS.

WE FURTHER PROPOSE TO THIS SUBCOMMITTEE THAT ITS STAFF WORK THIS YEAR, WITH A TASK GROUP THAT WOULD INCLUDE CSHA AND NASUA, TO CONVERT THIS DEMONSTRATION TO A NATIONAL PROGRAM, FUNDED AT THE FEDERAL LEVEL WITH APPROPRIATE INCENTIVES FOR STATE FINANCIAL PARTICIPATION. SUCH A PROGRAM WOULD BE AVAILABLE TO ALL HUD-ASSISTED PROJECTS FOR THE ELDERLY AND HANDICAPPED, INCLUDING HFA

FINANCED PROJECTS. WE BELIEVE THAT A FEDERAL CONGREGATE HOUSING SERVICES PROGRAM, WITH A STANDARD MODEL, ADMINISTERED AT THE STATE LEVEL BY THE TWO AGENCIES MOST EXPERIENCED AND KNOWLEDGEABLE IN THE FIELDS OF HOUSING AND SERVICES, WILL PRODUCE RESULTS THAT COULD NOT BE ACHIEVED BY A FRAGMENTED PROGRAM ADMINISTERED DIRECTLY BY HUD. WITH THE GROUNDWORK ALREADY DONE BY CSHA AND NASUA, A PROGRAM COULD BE DESIGNED AND READY FOR IMPLEMENTATION IN FY '89.

AFTER IMPLEMENTATION OF A FULL FLEDGED CONGREGATE HOUSING SERVICES PROGRAM, ALL PROJECTS SHOULD COME UNDER ITS AUSPICES.

HOMELESSNESS

EVERYONE IS AWARE THAT HOMELESSNESS IN THE UNITED STATES HAS EVOLVED INTO A CRISIS SITUATION. ESTIMATES VARY FROM 350,000 TO OVER 3 MILLION PEOPLE WHO DO NOT HAVE ANY PERMANENT ADDRESS OR MEANS OF SHELTER. ONLY THROUGH THE DEVELOPMENT OF A FEDERAL HOUSING POLICY CAN A COMPREHENSIVE STRATEGY BE DEVISED TO ALLEVIATE AND EVENTUALLY ELIMINATE THIS SERIOUS PROBLEM.

WITH AN INCREASE IN FEDERAL ASSISTANCE, THIS GOAL CAN BE ACHIEVED. FEDERAL FUNDS COULD PROVIDE THE MEANS FOR:

- O CONVERSION OF VACANT AND SURPLUS FEDERAL, STATE AND LOCAL BUILDINGS INTO SHELTERS FOR THE HOMELESS;

O THE DEVELOPMENT OF SUPPORT SERVICES TO PROVIDE COUNSELING AND JOB TRAINING; AND

O OPERATING EXPENSES.

HOMELESSNESS CAN BE REDUCED, IF NOT ERADICATED, WHEN FEDERAL, STATE AND LOCAL GOVERNMENTS UNIFY THEIR FUNDING SOURCES AND DEVELOP CREATIVE STRATEGIES.

AS QUASI-GOVERNMENTAL ENTITIES, HOUSING FINANCE AGENCIES ARE IN A UNIQUE POSITION TO HELP IDENTIFY AND SUPPORT HOUSING INITIATIVES FOR THE HOMELESS IN THEIR RESPECTIVE STATES. HFA'S, A LOCUS OF ACTIVITY AND COMMUNICATION IN THE HOUSING COMMUNITY, SUSTAIN RELATIONSHIPS WITH LOCAL GOVERNMENTS, BUILDERS, NON-PROFIT ORGANIZATIONS, AND OTHERS CONCERNED WITH THE PLIGHT OF THE HOMELESS.

SEVERAL HFA'S HAVE ALREADY PROVEN THEIR FINANCIAL AND TECHNICAL EXPERTISE IN PROVIDING HOUSING FOR THE HOMELESS:

THE DIRECTOR OF THE MAINE STATE HOUSING AUTHORITY CHAIRED HER GOVERNOR'S TASK FORCE STUDYING THE PLIGHT OF THE HOMELESS. THE COMPLETED STUDY MADE RECOMMENDATIONS FOR IMPROVED HOUSING, SUPPORT SERVICES, AND INCOME SUPPORT FOR THE HOMELESS. THE MAINE STATE HOUSING AUTHORITY HAS RESPONDED TO THE CHALLENGE OF HOMELESSNESS THROUGH ITS HOMELESS SHELTER FINANCING PROGRAM, WHICH UTILIZES TRUST FUND REVENUE TO PROVIDE 1 PERCENT LOANS FOR THE DEVELOPMENT OF, OR REPAIRS, TO SHELTERS. SINCE 1983, 7 SHELTERS

HAVE BEEN FINANCED.

IN GEORGIA, THE GEORGIA RESIDENTIAL FINANCE AUTHORITY HAS USED RESERVE FUNDS TO FUND A HOMELESS REVOLVING LOAN FUND. THE FUND WILL LEVERAGE RESOURCES FROM OTHER PUBLIC AND PRIVATE ENTITIES ON A PROJECT-BY-PROJECT BASIS, CREATING A MODEL OF PUBLIC-PRIVATE COOPERATION IN ADDRESSING THE NEEDS OF THE HOMELESS.

RECOGNIZING THAT THE HOUSING NEEDS OF THE HOMELESS CAN BE VARIED AND COMPLEX, THE STATE OF MARYLAND APPROPRIATED \$2 MILLION TO THE COMMUNITY DEVELOPMENT ADMINISTRATION TO PROVIDE LOW INTEREST, NO-INTEREST, AND DEFERRED LOANS FOR TEMPORARY SHELTERS, EMERGENCY HOUSING FACILITIES, AND GROUP HOMES. THE FUNDS ARE LOANED TO COMMUNITY BASED NON PROFIT ORGANIZATIONS.

IN ADDITION TO THE ABOVE, NEW HAMPSHIRE, COLORADO, RHODE ISLAND, AND SEVERAL OTHER STATES HAVE DEVELOPED PROGRAMS THAT FUND URGENTLY NEEDED SHELTER FOR THE HOMELESS.

AT THIS TIME, WHEN THE NEED TO PROVIDE SHELTER FOR THE HOMELESS IS SO GREAT, AVAILABLE RESOURCES MUST BE USED CREATIVELY AND CAREFULLY. THE HFA'S OFFER ADMINISTRATIVE AND TECHNICAL EXPERTISE TO ALLOCATE FEDERAL FUNDS EFFECTIVELY, AND TO PACKAGE ADDITIONAL SUBSIDIES TO CREATE A COST-EFFECTIVE PROGRAM IN FINALIZING THE EMERGENCY FOOD AND SHELTER PROGRAM IN S. 258 AND THE COMPANION PROGRAM IN H.R. 4., WE URGE CONGRESS TO IDENTIFY STATE HOUSING FINANCE AGENCIES AS VEHICLES TO DELIVER THE PROGRAM.

CONCLUSION

THE LENGTH OF THIS TESTIMONY BEARS WITNESS TO THE FACT THAT THE PROPOSED HOUSING AUTHORIZATION BILL MUST BE THOROUGHLY CONSIDERED AND DEBATED. THE RECENT SERIES OF DIRECT SPENDING CUTBACKS COMBINED WITH THE LOSS OF TAX CODE INCENTIVES AND THE INCREASE IN HOUSING NEED, PLACES A SEVERE BURDEN ON THE FEW REMAINING FEDERAL HOUSING PROGRAMS. ALL OF THESE PROGRAMS MUST BE RETAINED AT NO LESS THAN CURRENT LEVELS. THEIR AVAILABILITY TO STATE HOUSING FINANCE AGENCIES MUST BE INCREASED AND APPROPRIATE EFFICIENT ADMINISTRATION SYSTEMS MUST BE IMPLEMENTED OR MAINTAINED.

AS THE ROLES OF VARIOUS LEVELS OF GOVERNMENT IN HOUSING BECOME MORE CLEARLY DEFINED, THE COUNCIL OF STATE HOUSING AGENCIES WELCOMES THE OPPORTUNITY TO WORK WITH THE FEDERAL GOVERNMENT, IN A SPIRIT OF POST-TAX REFORM COOPERATION, TO ENSURE THAT AMERICA'S NEEDY ARE ADEQUATELY AND AFFORDABLY HOUSED. WE ARE PREPARED TO ANSWER ANY QUESTIONS AND THANK YOU FOR THIS OPPORTUNITY TO APPEAR BEFORE YOU.

Insert to Lynn Luallen's Testimony

Over the years, some state Housing Finance Agencies have been able to accumulate reserve funds from non-bond proceeds, such as fees and earning on investments, and until passage of the "Ullman Bill" in 1980, were able to build reserves from arbitrage earnings on bond issues. When not pledged to a particular bond issue or project, these funds become available for use in a variety of ways. Not all resources are available for program funding, however. These resources comprise an essential element of the asset base of HFA's that is considered by bond rating agencies. As such, strong reserves enhance the credit-worthiness of bonds issued by HFA's. For this reason, agencies have been judicious in investing these funds, choosing to deploy a portion of them for demonstration projects or to create low interest, targeted revolving loan funds.

Examples of state HFA use of agency resources ranges across the spectrum of agency involvement, from programs to encourage homeownership to financing the development of homeless shelters. In Kentucky, \$9 million has been invested in a fund for loans to homebuyers earning between \$7,000 and \$15,000 per year, offering interest rates of from 1 to 7 Percent. The South Carolina State Housing Authority created a demonstration program that provided mortgage funds for new homes priced from \$20,000 to \$40,000.

Secondary financing is provided to rental housing developers by the California Housing Finance Agency as an incentive to deeper targeting of the 80/20 bond program. Similarly, at the Missouri Housing Development Corporation, low interest rate financing is blended with bond rate financings for selected projects to encourage low income rental production.

Many state HFAs are directing reserve funds to construction or interim financing as a way to lower the cost of housing units being produced. Connecticut Housing Finance Agency has targeted \$15 million to finance home construction to lower home sales prices. Two year loans for rehabilitation, construction or acquisition for low-income single or multifamily units are being offered through a pilot program of the Maryland Community Development Administration.

Home improvement loans are offered by the Illinois Housing Development Authority at low interest rates for one to twelve units buildings in a Chicago pilot program. Wisconsin Housing and Economic Development Authority's demonstration energy efficient rehabilitation

program has been funded as a \$2 million revolving loan program to provide short-term loans to non-profit organizations to acquire older homes, to make energy improvements to them for sale to low income homebuyers.

Finally, state HFA's are deploying their reserves to fund innovative programs for population groups with special housing needs such as the elderly, disabled and homeless. Michigan State Housing Development Authority's alternative intermediate services program uses \$11.5 million to fund low interest mortgage loans to developers of small group homes for the severely physically disabled. Kentucky Housing Corporation's senior homeownership program offers low interest loans to homebuyers 62 years of age and older. While in Georgia, the Residential Finance Authority has created a Homeless Revolving Loan Fund to provide construction and rehabilitation funding to non-profit groups building homeless shelters.

Each of the above cases represents efforts by agencies with varying resources to draw upon. In each case, an emphasis has been placed on responsible investment of the assets in a way that meets particular housing needs identified by the agency. These activities thus provide a valuable laboratory for housing programs which CSHA and the individual agencies are closely monitoring in anticipation of future refinements and, as funding becomes available, expansion.

Testimony by
 William B. Einicke
 State Housing Director
 State of New York
 Committee on Banking, Finance and Urban Affairs
 Subcommittee on Housing and Community Development
 U S House of Representatives
 Rayburn House Office Building
 Room 2128
 Washington, D.C.
 Wednesday, March 11, 1987
 2:00 P.M.

It is an honor for me to be granted this opportunity to speak on behalf of the Empire State, New York, and to testify in support of H.R.4, and more specifically, Title VI, the Nehemiah Housing Opportunity Grants program.

I wish to congratulate Chairman Henry Gonzales for making this meeting possible. And I'd like to thank Congressman Chuck Schumer and Congressman Stewart McKinney for introducing the Nehemiah legislation. Chuck has been especially active on this bill. Nehemiah began in his county, and to Chuck's credit he recognized a success and is attempting to share it with the nation.

Over a half a century ago, New York State Governor Franklin Delano Roosevelt made a pledge "that the people of the State of New York cannot allow any individual within her borders to go unfed, unclothed, unsheltered."

When Governor Roosevelt left Albany to go to Washington as President Roosevelt that same commitment was given national scope. In the following years, the national government began to build a bipartisan tradition of federal assistance for housing, that reflected the compassion of that great New Yorker, Franklin Delano Roosevelt.

Last month, Governor Mario M. Cuomo eloquently stated for this Subcommittee the degree of the need for affordable housing in the State of New York and the measures we, at the state-level have been able to take to offer assistance to renters, homebuyers and the homeless.

I know I speak for Governor Cuomo in congratulating the members of this Subcommittee and the House of Representatives on the passage on H.R. 558, the Urgent Relief for the Homeless Act.

In a State with a demonstrated housing gap of one million units you can easily understand why hearings by Congress on federal housing assistance can cause us to come running from Albany to Washington to add our voice to those of other states and municipalities.

Paradoxically, I have come here for two, seemingly contradictory, reasons.

I have come here to ask for assistance, federal housing assistance to help us help those in desperate need of decent, affordable housing.

I am also here to render assistance to this Committee and this Congress in support of the Nehemiah Housing Opportunity Grants program.

Since 1983 Governor Cuomo and our State legislature have put together a \$4.4 billion housing program. With approximately half of the monies allocated, we have been able to construct or to rehabilitate more than 100,000 units of housing. Seventy percent of these units benefit low-income individuals and families.

The drastic reduction of federal housing assistance has challenged New Yorkers, at every level of government, in the private sector, and in the non-profit sector to find new ways to meet the tremendous need.

While residential construction in our State continues to be strong, it is the poor and the working class who are suffering the most from the housing gap. Without government intervention private construction can not benefit those who need it most.

Government intervention on behalf of the poorly sheltered and the unsheltered is a concept which we have come to accept as a legitimate responsibility of government. But its practice is fast becoming a dying art.

Those of us who have sufficient notches in our belt to commemorate our years of service to public housing have come to feel as though we have lost a dear friend, that we have lost a partner in our attempt to provide decent, affordable shelter.

H.R.4 gives us some hope that the partnership, which has been dormant for far too long, is reawakening. We can not do it ourselves. We can not meet all the legitimate needs for housing without increased federal assistance. For all of our bags of tricks, for all of our ingenious funding mechanisms, for all of our public and non-profit support we can not close the gap by ourselves. Tonight single-women with families will seek emergency shelter. Tonight people will sleep in hallways and on boxes under the stars. And while I challenge any state to show me a more aggressive housing policy, no state can stem the tide alone.

At the risk of sounding overly boastful, if the State of New York can not stem the tide what chance do other States have? New York has pioneered housing programs for the rest of the nation for decades. The country's first public housing development is in New York; our Mitchell-Lama program for middle-income housing has demonstrated what tax incentives can do to spur assisted housing and our Homeless Housing Assistance Program was the first capital grant program in the nation to address the challenge of homelessness.

Indeed, the Nehemiah project under discussion here today was born under the same need to provide affordable housing for New Yorkers.

Better than anyone in this nation I.D. Robbins, the chief architect of the Nehemiah Plan, can describe for you the mechanics and the feelings which went into the success in East Brooklyn.

I.D. could tell you, if Congressman Schumer has not already done so, how the East Brooklyn Council of Churches put their money where their heart is, and began a program of neighborhood revitalization unparalleled in contemporary society. He could tell how they began a rebuilding of heart, of pride, of community, and finally of homes.

I.D. could tell you all of this far better than I can. He could list for you the benefits of the Nehemiah Plan. In so doing he might start with the freeing-up of public housing apartments, vacated by the new homeowners. These valuable remnants of a bygone era have been quickly claimed by low-income families, some of whom might have otherwise been homeless.

But most importantly he could, if words can do justice, list for you the names of the new homeowners. People for whom homeownership has been an unrealistic dream.

I.D. can be likened to the mythical, greek Prometheus. A skilled craftsman and thinker, who returned the hearth to those who have been deprived its warmth for too long.

I wanted to address this subcommittee because I feel I can offer a rather unique prospective on the Nehemiah Project. Once you are sold on the value of the Nehemiah Project to East Brooklyn, and I can safely assume that to be the case, the next hurdle should be: "Can the program be replicated outside of New York City?" I am here to answer that with an emphatic, "Yes!"

I am here to testify that the miracle in East Brooklyn was no flash in the pan. Nehemiah can be replicated outside New York City, and we are doing so in a number of communities throughout New York.

We have modeled our statewide program on the East Brooklyn Nehemiah Project's three basic tenets:

1. Homeownership for low and moderate income families remains the American dream. In 1985 Governor Cuomo signed into law the Affordable Homeownership Development Trust Fund and the Low Income Housing Trust Fund in an effort to make homeownership a reality for thousands of New Yorkers. Together with existing State programs like the Housing Development Fund and the Urban Initiatives New York is bringing homeownership to more and more New Yorkers each year.

Nehemiah not only enables more people to achieve the American dream but it strengthens communities by giving families a great sense of belonging in their community.

2. Redevelopment of distressed areas is most effective when it is initiated at the grassroots level. The State of New York fully subscribes to this view. Through our preservation company programs New York funds the administrative costs of 300 non-profit organizations engaging in community development activities across the state. These grassroots non-profit organizations are the most frequent users of our housing development funds.

3. Redevelopment should be on a scale large enough to stem the tide of disinvestment, and establish a community which can make a difference in the neighborhood.

We have been remarkably successful in translating these principles into bricks and mortar projects across the State.

Perhaps one of the more dramatic reproductions of the Nehemiah concept is in the City of Lackawanna.

Lackawanna suffered a terrible economic blow when Bethlehem Steel moved out. The city is starting to come back on its feet. The natural and man-made resources of the city make it a choice commercial center. But in its redevelopment, residential housing was a weak link. Working with the City of Lackawanna we were able to put together a package which will ultimately construct 136 single-family homes, bringing homeownership to families of modest means. These units represent the first residential housing development in the city in over twenty years. The City of Lackawanna has made the development site available to the project at no cost and the private developer has agreed to assume the cost of the infrastructure. The State of New York is providing monies under the Housing Development Fund and the Affordable Homeownership Housing Corporation to bring the purchase price down even further.

I went to Lackawanna to close the deal on the State assistance, and I was met by thunderous applause and thunderous rain. But in spite of the torrential downpour people huddled at the vacant site to witness a new beginning for their city.

The 136 homes to be built in Lackawanna is by no means the extent of our statewide Nehemiah success. Schenectady will see 80 units of affordable housing, Rochester will see 41 at one project and 50 at another, likewise in Buffalo, 56 in one phase of construction and another 56 in a second phase.

Honorable Henry B. Gonzalez, Chairman
 Subcommittee on Housing and Community Development
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Given the differing conclusions, it seems fair to ask: What is a realistic cost comparison? How cost-effective really is the SHARP program? For our part, we would have to agree with the numbers presented by the Committee staff and, in a sense with their conclusion. In terms of the total cost of housing low-income families in newly-produced units, that "cost" will approximate \$10,000 per year under any program -- based purely on the economics of newly constructed housing. But what can be handled differently is how those costs are borne and by whom, as well as the degree to which the achievement of important goals is leveraged by the outlay of public funds.

What we have attempted to do under the SHARP program is to learn from the experience of two federal programs, the Section 8 New Construction program and the UDAG program. On that basis, we have chosen to separate the two goals we are attempting to achieve -- housing affordability and housing availability.

For many years, those in the housing field have argued long and hard about demand-side subsidies versus supply-side subsidies. Those advocating "demand-side" strategies have argued that the real problem is one of adequate incomes and that, if low-income households were given adequate buying power the private sector would supply the necessary housing. Those pushing "supply-side" subsidies have argued that, without deliberate public intervention, the private sector will not on their own produce housing affordable to those needing it the most.

From our perspective, demand-side subsidies, whether Section 8 certificates or housing vouchers, are a critical tool in meeting our housing needs in Massachusetts. At the same time, however, without some public action to stimulate the production of affordable housing, those who receive Section 8 certificates will have an increasingly difficult time in finding housing within the Section 8 rent limits. Clearly, in our view, intervention on both the demand and supply sides is appropriate.

The Section 8 New Construction program represented a straightforward federal program to achieve both objectives in an integrated fashion in one program. And it was very successful in achieving those objectives. However, the expense of accomplishing both of those goals in one program was very high on a per-unit basis, and appears to be one of the factors which resulted in the program losing widespread support.

In developing the SHARP program, we have attempted to de-couple these two objectives and to focus the SHARP program more narrowly on our housing production goal. In doing so, we have followed the UDAG example of keeping the "subsidy" to the absolute minimum and have structured our assistance as a loan. The SHARP assistance must always be the "minimum amount necessary" to make the project feasible and the project must be "self-sustaining" after 15 years.

Attachment A

Comparison of SHARP and Section 8 New Construction Programs
Costs to Produce Each Housing Unit for Low-Income Households

<u>Year</u>	<u>-- Section 8 New Const.--</u>		<u>----- SHARP -----</u>	
	<u>Demand</u> <u>Subsidy</u>	<u>Production</u> <u>Subsidy</u>	<u>Demand</u> <u>Subsidy</u>	<u>Production</u> <u>Subsidy</u>
1	\$6,500	\$3,500	\$6,500	\$3,000
2	6,500	3,500	6,500	2,800
3	6,500	3,500	6,500	2,600
4	6,500	3,500	6,500	2,400
5	6,500	3,500	6,500	2,200
6	6,500	3,500	6,500	2,000
7	6,500	3,500	6,500	1,800
8	6,500	3,500	6,500	1,600
9	6,500	3,500	6,500	1,400
10	6,500	3,500	6,500	1,200
11	6,500	3,500	6,500	1,000
12	6,500	3,500	6,500	800
13	6,500	3,500	6,500	600
14	6,500	3,500	6,500	400
15	6,500	3,500	6,500	200
16	6,500	3,500	6,500	0
17	6,500	3,500	6,500	
18	6,500	3,500	6,500	
19	6,500	3,500	6,500	
20	6,500	3,500	6,500	
21	6,500	3,500	6,500	
22	6,500	3,500	6,500	
23	6,500	3,500	6,500	
24	6,500	3,500	6,500	
25	6,500	3,500	6,500	
26	6,500	3,500	6,500	
27	6,500	3,500	6,500	
28	6,500	3,500	6,500	
29	6,500	3,500	6,500	
30	6,500	3,500	6,500	
TOTALS	\$195,000	\$105,000	\$195,000	(24,000)*

*NOTE: Repayment, with interest (not shown), at sale or refinancing during years 16 through 30.

GENERAL HOUSING AND COMMUNITY DEVELOPMENT ISSUES, (H.R. 4)

Thursday, March 12, 1987

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 9:34 a.m., in room 2128 of the Rayburn House Office Building, Hon. Henry B. Gonzalez (chairman of the subcommittee) presiding.

Present: Chairman Gonzalez, Representatives Fauntroy, Kaptur, Erdreich, Carper, Hubbard, Mfume, McKinney, Wylie, Wortley, Bartlett, Saxton, Saiki and Bunning.

Chairman GONZALEZ. The subcommittee will please come to order.

In view of the fact that we have two panels and that we have our sturdy companion, Mr. Bartlett, from Texas, we may proceed and perhaps go through some of the preliminaries and save time.

The subcommittee today continues its legislative hearings on H.R. 4, hearing testimony on the issues that are contained in this year's housing authorization bill.

Yesterday, we heard from the States. This morning, we will hear from the cities and the counties in our first panel, with witnesses representing the National League of Cities, the United States Conference of Mayors, and the National Association of Counties.

In our second panel this morning, we will hear from low income housing advocacy groups—the National Low Income Coalition, the National Housing Conference, and the National Housing Law Project.

This afternoon, we will hear from industry and trade groups representing the National Association of Home Builders, Mortgage Bankers Association, the National Association of Realtors, and the Rental Housing Association.

Mr. Barlett, do you have any statement you wish to make?

Mr. BARTLETT. No, Mr. Chairman, I have no opening statement.

Chairman GONZALEZ. I'm very happy to welcome and also to recognize our colleague from Kentucky for the purpose of introducing his mayor from Louisville, KY, Mayor Abramson.

Mr. BUNNING. Mr. Chairman, thank you very much. I'd like to introduce and welcome one of our distinguished panelists today, the Honorable Jerry Abramson, the mayor of Louisville, KY.

Jerry, it's good to see you.

Mayor Abramson is not a constituent of mine, but his district and his city is surrounded by my district, so we're neighbors. Jerry is getting to be quite a regular up here on Capitol Hill. He was just a few weeks ago and testified over on the other side on the homeless bill.

I'm looking forward to hearing your testimony today, Jerry, and I'd like to extend my personal welcome to you.

Welcome.

Mayor ABRAMSON. Thank you. Thank you very much.

Chairman GONZALEZ. If there's no objection, we'll proceed in the order listed here and recognize Mayor Daddona. Thank you each for travelling many miles and helping us here. We consider these to be very important hearings. There will be Members coming in a little bit later. This is a morning that some other committees are meeting. Most of the Members here belong to more than one committee or subcommittee.

I thought that for the purposes of proceeding expeditiously, we'd go on ahead and at this point recognize you, Mayor. You may proceed as you see best. If you want, you can have your prepared text placed into the record at this point and then you may proceed. But it's up to you.

Thank you for being with us and helping us, again.

STATEMENT OF HON. JOE S. DADDONA, MAYOR OF ALLENTOWN, PA, REPRESENTING THE NATIONAL LEAGUE OF CITIES

Mayor DADDONA. Thank you. I will submit the prepared text for the record and just hit some of the highlights and perhaps summarize some of the points, in the interest of time.

My name is Joe Daddona, mayor of the City of Allentown, Pennsylvania. I've been a member of the National League of Cities policy committee on community and economic development for over 5 years. I also have the privilege of serving on the U.S. Conference of Mayors special task force on CDBG.

As you know, NLC represents elected officials of over 16,000 of cities and towns. We appreciate the opportunity to address these critical housing and community development issues.

Unfortunately, we find that the administration's fiscal year 1988 budget proposals continue the assault of previous years on Federal housing and community development programs. It proposes very deep and even retroactive cuts in the programs that we rely on so heavily—CDBG, UDAG, HUD, and Farmer's Home Administration assisted housing programs.

In city after city across our Nation, there have been annual increases in the number of Americans without adequate shelter. The administration's budget offers no initiatives or hope for these people. It promises to put more and more desperate Americans on our streets.

We sincerely hope, Mr. Chairman, that you in this committee and, of course, the budget committee, won't let this happen.

NLC strongly opposes these budget proposals, which, if approved, would further erode and eventually terminate not only a long-standing bipartisan commitment, but an actual partnership be-

tween the Federal Government and the local municipalities in providing decent shelter for everyone.

That's why, Mr. Chairman, we are grateful for your leadership in introducing H.R. 4, which provides a positive alternative to the proposed nonhousing and noncommunity development suggestions in the budget of the administration.

NLC strongly supported the efforts of your committee last year, I think you'll recall, when it approved H.R. 1, the Housing Act of 1986. And we are hopeful now that with the change in the Senate make-up and your continued efforts on behalf of H.R. 4, this will lead to enactment of a housing and community development bill this year.

We strongly support all the provisions that are contained in H.R. 4 as it is—the CDBG, improving the UDAG program, continue the HUD and Farmer's Home assisted housing programs. And, in addition, we respectfully urge that H. R. 4 be amended in one significant way—to reauthorize these programs for 3 years so that local officials can plan ahead. It's so important to have the continuity and consistency that multi-year authorizations allow. And, of course, it allows us to implement strategies that we couldn't do otherwise.

You have before you, Mr. Chairman, the results of a survey that NLC conducted, a report. And I'd like to, if I may, introduce this into the record as a study of housing needs and priorities entitled, "A Time To Build Up: A Survey of Cities About Housing Policy."

Allentown was one of the 444 cities that participated in this survey, a survey that indicates that broad segments of our population must struggle with severe housing problems, and without a strong Federal role in assisting these people, the situation will worsen.

Chairman GONZALEZ. Without objection, the survey will be submitted for the record.

[The survey referred to is retained in the subcommittee files.]

Mayor DADDONA. OK. Thank you. For many Americans, Mr. Chairman, finding adequate shelter, as you know, has become more urgent and more difficult, more costly and, of course, more frustrating.

The report will clearly show that the needs are not isolated. I don't care where the city is, they're facing it. It's all parts of our Nation, communities large and small. Also, it shows that the groups facing the most severe problems include the homeless, low income renters, and the low income homeowners, families with three or more children, female-headed households and recent immigrants.

Now I'm not going to go into any of the details of the survey. You have the report. But I sincerely hope that you and your staff will take the time to review it because the survey makes it very, very clear that the housing needs in our cities and towns have not diminished. Yet, for Federal housing assistance programs, the years since 1980 have been a time to scale down. Housing assistance has fallen from \$30 billion to less than \$10 billion and construction of new assisted housing units has come to a virtual halt.

Meanwhile, we're sitting on a potential time bomb in the form of hundreds of thousands of subsidized rental units that may disap-

pear from the market in the coming decade. And this time bomb, as we're aware of, is still ticking. The current housing certificates will soon expire for some. Other units may be withdrawn through mortgage prepayments.

You have a book which shows so clearly—the last page in a booklet we gave you shows—well, near the last page—a chart that indicates what's happening to housing over the last few years and what will happen from 1990 to 2000 if we don't do anything to stop it.

[The booklet referred to is retained in the subcommittee files.]

Mayor DADDONA. Just one particular one I want to stress is by the year 2000, if things continue the way they are, there will be almost 3½ million fewer units than we have now. The NLC report documents an urgent need to combat this rising tide of dependency and desperation and to put forward a national housing policy that will work.

And now on another matter, we feel your idea, Mr. Chairman of a CDBG week is just fabulous and we want to thank you for introducing H.J. Resolution 91, which designates the week of the 11th to the 18th. And we're all wearing this back home, this badge that promotes a National Community Development Week.

I want to report to that, we just met with our congressman, Don Ritter, from Lehigh Valley, and he's offered and agreed, and he indicated that I should mention to you that he will be a cosponsor of this resolution with you.

My city, as well as communities across the country, are looking forward to celebrating the success of community development block grant programs in meeting the needs of our low and moderate income citizens. And, of course, I urge your fellow colleagues of the committee to also cosponsor this resolution if they haven't yet.

A few observations in wrapping up here of what H.R. 4 means specifically to the city of Allentown.

I think, and I'm sure Allentown's use of block grant funds is representative of many communities whose low and moderate income population, like ours, accounts for half or more of our total population.

In the central part of our city where our block grant dollars are targeted, 61 percent of our residents are of lower income. The city of Allentown is about 14 years older than our Nation and it's this section of the city which is also the oldest, with a majority of the structures dating from the 1860s through the 1920s. Brick row houses line major streets and alleys, making this the densest part of our city. The central business district is also located here and it's an area where 42 percent of all households with incomes under \$15,000 are contributing more than 35 percent of their income toward rent. It's an area where the infrastructure has been showing signs of wear and water lines date back to the 1890s; small concrete streets and curbs and sidewalks date back to the 1920s and 1930s.

But thanks to CDBG, comprehensive neighborhood revitalization has been, and continues to be, our major thrust, with over 63 percent of fiscal year 1985 expenditures devoted to this effort.

I want to stress one more point and then get into a summary here.

Our funds are truly directly assisting the neediest neighborhoods and households, where 86 percent of our fiscal year 1985 expenditures benefited low and moderate income citizens.

The results are really visible because if you look at the record, or vacant structure list has been reduced by one-tenth from what it was before we had CDBG back in 1974. The nice thing about it—the process is contagious. It really catches on. It spreads. There are spin-offs in surrounding blocks, preserving local housing stock and increasing our tax base and strengthening our effort to preserve and create new jobs.

Now for a comment on the social service aspect of it.

In Allentown, we find that demand for subsidized day care far outstrips the resources. The task of providing day care is shared by our block grant and viewed as an extremely important jobs tool.

Because the program provides flexibility in determining local priorities, we were able to put money into day care where otherwise it would not have been made available to keep mothers off welfare and keep them working as part of our work force.

The other important feature, of course, is its flexibility. Fortunately, we had the ability, through the block grant program, to meet a need for the homeless because we didn't qualify for FEMA. But because we had the block grant program, we could make dollars available to put otherwise homeless in shelters.

I know it's happening in other States—deinstitutionalization of our mental patients. We had over 1100 that in one year were forced out into the streets of Allentown. The city responded because we had CDBG. In a partnership with our local churches, we provided the seed money for a drop-in center that significantly met the needs of these patients that would otherwise have gone homeless and without the services they needed.

In our city, we've always advocated preservation of our existing housing stock through the block grant program, as well as through other assistance housing programs. We believe that continued maintenance of existing conventional public housing units and rehab and use of existing housing units through section 8 is the most cost-beneficial means to accommodate our housing needs.

The time bomb is indeed ticking. Our units are increasing. We're at 1800 now, the highest it's ever been in terms of people waiting on our list to get into low and moderate income housing.

Another vital program, of course, is 312. Allentown would seriously be impacted if we lost 312.

And finally, the one program that we rely on to generate the expenditure of private sector dollars to help create jobs is UDAG. We have been a strong supporter of this. We will continue our support because it involves such a small amount of investment of Federal dollars to leverage a tremendous input of private sector dollars. And certainly for Allentown, this has been the case.

So in closing, Mr. Chairman, and in summarizing, I have tried briefly to detail Allentown's experience as an example of many cities who are in similar circumstances. It is hard to over-emphasize the importance of the housing and community development programs authorized by this committee and the projects and jobs they create in cities like mine and others throughout the Nation.

I hope you and the members of your committee will vigorously lobby the budget committee to provide for these levels of fundings that are needed.

I understand that the Democratic members of the budget committee, and this is so important, are going to make a decision, or at least they're committed to make a decision this evening. And so it's so important for this committee to make their wishes known in getting the CDBG in the freeze part of their priorities before we lose it completely.

Thank you.

[The prepared statement of Mayor Daddona can be found in the appendix.]

Mr. FAUNTROY. And I thank you, Mayor Daddona, for giving us the view from Allentown, and also the view from the 16,000 members of the National League of Cities.

We're privileged now to hear the view from Louisville, the distinguished mayor, Jerry Abramson.

Mr. Abramson, we're very pleased to have you.

STATEMENT OF HON. JERRY ABRAMSON, MAYOR OF LOUISVILLE, KY., REPRESENTING THE U.S. CONFERENCE OF MAYORS

Mayor ABRAMSON. Thank you, Mr. Chairman, and thank you, Congressman Bunning, again, for your kind introduction.

My name is Jerry Abramson. I'm mayor of the city of Louisville, KY. I'm here not only on behalf of Louisville, but I also cochair the task force for the U.S. Conference of Mayors dealing exclusively with the reauthorization of community development block grant funds.

We're here to strongly support H.R. 4, which was reaffirmed as recently as January by our entire U.S. Conference of Mayors group at our midwinter meeting here in Washington. We support the funding levels and we support the programs—community development, UDAGs, HODAGs, section 8, rental rehab, et cetera, things that are so important to the urban areas of our country.

We're most excited about the fact that there even is an H.R. 4 because it's been 5 years since we've had an omnibus housing bill in this country and it's time to begin focusing on a national housing policy for America, and the U.S. Conference of Mayors strongly supports this bill.

Now the conference is certainly aware of the Gramm-Rudman situation and also aware quite vividly of the deficit that the Federal Government is presently having to deal with. And yet, we want to remind this committee and the Congress in general that the urban areas of the United States have suffered in the last 6 years a 68 percent cut in all the Federal funding that comes to our communities—68 percent of the Federal dollars that used to come to cities over the last 6 years have been cut.

Now this is at a time when the administration in 1980 presented a budget that carried with it a \$50 billion deficit, and in 1987, has presented a budget that carries with it almost a \$200 billion deficit. And yet, during that same period of time, urban areas in America have taken a 68 percent cut in Federal funding.

I would submit, Mr. Chairman, to the committee the Conference of Mayors' annual report that specifically is entitled, "The Federal Budget in the Cities," that itemizes those specific cuts over the last 6 years, and I would like to have them become a part of the record.

Mr. FAUNTROY. Without objection, it will be included in the record at this point.

Mayor ABRAMSON. Thank you. Our feeling is that you simply cannot make decisions affecting cities in a vacuum. If one committee begins to make a decision regarding revenue sharing and another committee decides to cut aid of families with dependent children, and another committee decides to cut community development block grants, and another public housing maintenance and job training and health care, et cetera, they all interact to such an extent that making decisions in a vacuum end up leaving mayors in this country without the funds to service those especially in the low and moderate income area who reside within our cities.

Now let's focus specifically, however, on the programs that are in question here in H.R. 4.

First, housing. Where are we in America today as relates to low and moderate income housing? I would submit to you, Mr. Chairman, that we are in an advanced state of deterioration in those housing units throughout this country, both public and private. I would submit to you that the facts clearly show that we are tearing down more low and moderate income housing in this country than we are building.

I would also submit to you that in the last decade, we have three million more households in this country making a total of \$10,000 a year and two million less housing units affordable by those individuals.

And where are we in public housing today? Let me give you an example in Louisville, KY. I've got 6000 units in my city. I have 24,000 people living in those units. I have 3200 families on a waiting list. And yet, I went a year and a half with 700 units standing vacant while there was a question of whether we would receive the necessary maintenance funds. We're not talking about building new projects. We're talking about maintaining the ones we have.

I've got a waiting list of 3200 families and I've got 700 vacant units that were sitting there until 3 months ago awaiting maintenance money.

We would submit on behalf of the U.S. Conference of Mayors that we've got to move through H.R. 4, support the approach for housing from section 8 to 312, et cetera.

Let's talk about UDAGs—urban development action grants. Got to be the ultimate in public/private partnerships. Congress calls on the urban areas to try to create and attract private investment in our cities.

Well, let me give you a perfect example of Louisville, KY.

Louisville, KY., in our downtown, we have what we call a "Galleria." It's a commercial retail establishment and also has two connecting office towers. The urban development action grant was \$8 million. The city of Louisville and the Commonwealth of Kentucky put in an additional \$10 million. With those dollars, we were able to attract over \$100 million of private money to create over 1500 jobs that would develop the downtown of Louisville, KY.

That's what urban development action grant is all about. That's the ultimate, I would submit to you, in a private/public partnership for this country.

And finally, let us talk about community development block grants. There is a conception, it seems to me, in Congress as well as in the administration, that the funds used or given to urban areas for community development block grants simply are not being spent for low and moderate income needs. And I would submit, Mr. Chairman, that that is a misconception, that with the continued level of funding at \$3.4 billion and continued at the same strings attached, if you will, the same types of benefits for low and moderate income required and eliminating slum and blight, that the urban areas do, in fact, spend the money for low and moderate income.

And let me give you some examples.

I believe that there is an urban agenda in this country and I believe it centers around four specific things. One is the job creation. That's so important in our cities. Second, it's helping people help themselves. Keep them independent. Give them an opportunity—it's the old, pay 'em now or pay 'em later. The third is the improvement of our urban housing stock in this country. And finally, fourth, we have to provide the ultimate safety net for those who are most in need.

Now how has community development block grant been used as relates to the urban agenda? In terms of job creation, in Louisville, KY., 6 months ago we started a home-building institute. We took hard-core unemployed, low income people and we have now turned 100 of them into full-time, permanent employees in the construction industry. We've taken a day care center 5 years ago and allowed over 200 children to now be a part of a subsidized day care program so that those single parents can find a job and have the flexibility to go to work.

That's job creation and community development block grant funds help that occur in Louisville, KY.

Second, helping people help themselves—keeping people independent. We've used community development block grant funds in Louisville for Project Warm—a program that last year and this year and the year after, as you all will allow us, helped 600 low income elderly and disabled individuals with free weatherization service to keep them in their homes. So instead of having 3200 on a waiting list of families for my housing facilities, I might have 5000 or 8000 if I can't keep the senior citizens in their homes. And the free weatherization program works. We use community development funds.

The emergency repair program—again, fix the roof, fix the furnace, assist the low income elderly, disabled to live in the homes that they have. Don't get them out on the public housing waiting list. Community development block grants.

Third, improving the housing stock of America. Mr. Chairman, I could give you example after example throughout this country where we have used community development block grants in cities, to go into a blighted area and to rejuvenate, to revitalize the area based on the opportunity for housing.

In Louisville, KY., we took 87 single-family homes that were boarded up. We created an opportunity with community development block grants to rehab those homes. With Mr. Lewellyn, who was here yesterday speaking on behalf of the Kentucky Housing Corporation and his low interest money, we've created a situation where families making no more than \$12,000 a year will have an opportunity for home ownership, and they'll pay \$20 less a month than they would have when those homes were being rented, before they were boarded up and completely shut down.

We've revitalized the neighborhood with community development block grants.

And finally, the ultimate, the safety net that's going to have to be there for those who are truly most in need. In Louisville, KY., we renovated an old, abandoned church and created a day center for the homeless. We started with 72 people a day. Now we're up to 275 people a day and we used the community development money not only to renovate it, but there are showers, there's laundries, there's counseling opportunities for those who unfortunately are in that state of affairs.

Now the community development block grant is so important to the U.S. Conference of Mayors, that we support and we really appreciate the Chairman's designation of April 11 through the 18 as Community Development Week. And we're going to be having press conferences and try to raise the consciousness in our communities regarding the importance of these funds.

So the bottom line, Mr. Chairman, in ending, concluding, finishing up, is that the U.S. Conference of Mayors strongly supports H.R. 4. We have got to make a decision in this country that cities are America's best investment, that, in fact, if we don't invest in education, if we don't invest in job training, if we don't invest in housing or health care or transportation, more and more people are going to become more and more dependent on government. And yet, with investment, such as the ones that are proposed in H.R. 4, we believe there will be less dependence on government ultimately, and the urban areas of this country strongly support H.R. 4 and hope that you all can pass that on to your colleagues as the bill passes through the process.

Thank you, sir.

[The prepared statement of Mayor Abramson can be found in the appendix.]

Mr. FAUNTROY. Thank you so very much, Mr. Mayor, for an encouraging and refreshing view from Louisville.

Mayor ABRAMSON. Thank you.

Mr. FAUNTROY. And now, if I may ask that the Honorable Barbara Bachur will give us the view from Baltimore County and the National Association of Counties.

**STATEMENT OF HON. BARBARA F. BACHUR, COUNCILWOMAN,
BALTIMORE COUNTY COUNCIL, REPRESENTING THE NATIONAL
ASSOCIATION OF COUNTIES**

Ms. BACHUR. Good morning, Mr. Fauntroy, and members of the subcommittee. Good morning, Mr. Mfume, who was one of my colleagues in the adjoining jurisdiction.

I'm Barbara Bachur, a member of the Baltimore County Council, and I chair the Community Development Steering Committee for the National Association of Counties.

As an elected official and long-time advocate for housing, I share the committee's deep concern for the escalating housing crisis in this Nation. The alarming increase in homelessness in rural, as well as urban, counties, the dwindling supply of federally-assisted housing, and the growing scarcity of affordable housing attests to the need to reaffirm a national commitment to housing and community development. H.R. 4 represents a significant step toward that reaffirmation.

County officials were alarmed last year that Congress failed to pass legislation reauthorizing housing and community development programs. CDBG is a priority for NACO. We were concerned that this failure made these programs more vulnerable to reductions, if not elimination, at a time when the need for these Federal development tools is heightened.

To ensure their continuation, we join the National League of Cities in urging that H.R. 4 be amended to reauthorize CDBG for 3 years. A multi-year reauthorization is particularly important for counties. As you know, in order to qualify for entitlement funds, urban counties must secure 3-year cooperative agreements with governments within their jurisdictions. The ability of counties to secure 3-year agreements increases if local governments perceive that money will indeed be available throughout that cooperation period.

County officials are pleased that H.R. 4 contains authorization funding levels for housing and community development programs. As you very well know, the administration has made concerted efforts to reduce or eliminate funding for programs administered by Farmers Home and HUD. Funding for assisted housing has already been cut by two-thirds since 1981. We feel that the \$3.4 billion authorization level for CDBG in H.R. 4 begins to restore this program to its historic 1981 funding level of \$3.7 billion.

County officials applaud the committee's rejection of legislative revisions in CDBG that the administration advocates. Among these is a proposal to make new construction an eligible CDBG activity. We oppose any new CDBG-eligible activities. The only instance in which we might differ is if additional fundings were offered commensurate with a new activity. New construction would divert funds from current activities at a time when requests for CDBG assistance far exceed available funds.

Furthermore, making new construction an eligible CDBG activity cannot substitute for cuts in production money for public housing, Farmers Home Administration and other housing development programs.

NACO opposes legislative proposals being considered by the administration to target CDBG funds on the basis of average per capita grants. Under this scheme, an urban county would lose its entitlement status if its CDBG grant is less than half the average grant per capita. Roughly one-half, or 60 out of 116 eligible counties would no longer receive entitlement funds.

NACO opposes this approach for several reasons. While it would be easy for HUD to eliminate entitlement communities, a per

capita approach in no way measures the need for CDBG in affected urban counties. For example, Cook County, Illinois would lose entitlement status even though 430,000 low income citizens reside in that county.

More importantly, a per capita formula overlooks the existence of pockets of poverty in urban counties and the tenacious effort of county officials to direct funds to their citizens with the greatest need for community revitalization.

Baltimore County, the county that I represent, would lose its entitlement status under a per capita formula. In my county, CDBG has been used to rehabilitate rental and owner-occupied low and moderate income housing, to construct centers for the handicapped and senior centers, and to provide grants to nonprofit organizations to work with battered spouses and provide shelters for the homeless.

We have used CDBG to make public works improvements in an isolated target area with a particularly high concentration of low and moderate income residents. Water and sewers were provided for this area where none previously existed, along with road improvements. County resources alone simply are not sufficient to respond to these very basic community development needs.

Community development block grants is a highly targeted program. HUD reports clearly document that 90 percent or more of CDBG entitlement funds benefit low and moderate income people.

NACO is concerned about urban counties which are threatened with loss of their entitlement status, because central cities which are now part of these urban counties can no longer elect to defer their entitlement status.

In 1983, HUD determined that some cities had become central cities on the basis of 1980 census data. San Joaquin and Sonoma counties in California, St. Clair and Madison counties in Illinois, and Hudson County, New Jersey, were in jeopardy of losing their entitlement status unless permitted to include newly designated central cities in order to meet the 200,000 population threshold. These counties were able to continue their entitlement status because of a special provision in the Housing and Urban- Rural Recovery Act of 1983. That provision allowed newly designated central cities to defer their entitlement status for three years, 1984, 1985, and 1986, so that they could remain with the urban counties.

These counties now face a similar situation of not having the required 200,000 minimum, unless permitted to count the population of their central cities. Even if the county's population exceeds 200,000, some cities have indicated that they would like to continue to participate under the urban county CDBG Program. NACO will work with this committee to make permanent, instead of time-bound, the provision permitting a central city to defer its entitlement status as long as it continues to have its population included in the urban county.

There is a final issue I would like to address with respect to the CDBG Program. Urban counties are faced with meeting a threshold population of 200,000, which is largely dependent on the cooperation of a number of local units of government. The 3-year opt-in period is helpful. However, counties are still faced with the political problem of soliciting participation from cities, towns, and town-

ships, while at the same time expected to develop a targeted program which may serve only a portion of the county.

We feel that the qualification process should be separated from the funding process. Under these conditions, counties would automatically qualify for CDBG if they have a population of 200,000 outside any metropolitan city. Funding levels would be determined separately based on the number of cooperating jurisdictions and the population of the unincorporated area.

Mr. Chairman, we support changes in the urban development action grant selection criteria as contained in H.R. 4. We also support the provisions to provide shelter for the homeless and the expansion of these provisions in H.R. 558.

The 1987 legislative conference of the National Association of Counties begins this weekend here in Washington. The Community Development Steering Committee will meet during our conference. That policy-making body will draft resolutions which address provisions in H.R. 4. We look forward to working with this committee and will share any resolutions we adopt.

Thank you very much.

[The prepared statement of Ms. Bachur can be found in the appendix.]

Mr. FAUNTROY. And we thank you, Ms. Bachur, and to each member of the panel. You have given us reassuring and eloquent support for what we're attempting to do in H.R. 4.

May I begin the questioning of the panel by focusing upon the community development block grant allocation which we have made of \$3.4 billion for fiscal year 1988? Do you believe that that level is adequate to meet the needs of our cities in 1987-88?

Mayor ABRAMSON. Well, we could certainly use more. But we want to be realistic and we want to be fair to all those who are attempting to cut into the overall pie, if you will. It is most important that that figure of \$3.4 billion be continued and be the one that comes out of the final bill agreed on by both the Senate and the House.

It affects so many things, as has been explained by the speakers here this morning. We strongly feel that it's got to stay at that level. Again, going back to where we have been, we have lost so many programs and there are so few left. And no one's asking for more; we're simply asking to have a continuation of where we're at, a reauthorization, and give us an opportunity to fend as best we can with the small amount of funds that we're still receiving from Washington.

Mayor DADDONA. If I may mention, Mr. Chairman—

Mr. FAUNTROY. Yes.

Mayor DADDONA. In Allentown, the peak in our grant was \$3 million. We received that in 1980. This year, if H.R. 4 is approved and it's funded, we will get \$2.4. Yet, in terms of actual 1980 dollars, that's about \$1.6. And our needs have actually gone up since 1980 because, as the mayor indicated, we've lost all other programs that were dependent on categorical kinds of grants in the past that are now coming to us for CDBG.

When we lost Federal revenue sharing, I had to raise the city's taxes 5 mills, the highest ever in the history of the city, because we used it to fund our fire department. If we lose CDBG, we won't be

able to raise the millage because we won't get the kind of public support that you can get when you raise taxes to fund a fire department, to provide life and protection for your family and your property. That kind of critical need is not seen by the public in general in terms of the need.

So we will just have to discontinue all the programs we talked about. So, yes, \$3.4 million and whatever more you could get is definitely needed.

Mr. FAUNTROY. Yes. I'm so pleased that these hearings are recorded for posterity and that I'll be able to look at your statement there just prior to the floor debate on this question because it does suggest that, gee, with that kind of actual drop in ability to deal with the needs that were meeting 5 years ago with \$3 million, it's clear that what we are suggesting is very, very modest.

Mayor DADDONA. Oh, yes.

Mr. FAUNTROY. Let's see. You point out the League of Cities survey states that financial assistance for rentals and rehabilitation of single and multi-family housing should be a top priority of this subcommittee.

Do you feel that the amounts authorized for our low income housing programs in H.R. 4 are sufficient to meet the needs of our cities?

Mayor DADDONA. Yes, especially when you realize in a lot of the cities, we've been using the CDBG to supplement that through other programs and through 312.

I understand that there's talk in the budget committee of increasing the allocation for the homeless, maybe at the expense of CDBG and keeping the level up there. That, I think, would not be a wise move because why not keep them from becoming homeless to begin with. That's what CDBG helps us with. We keep the people in their homes before they get out on the street and then become part of the statistics of the homeless.

With, of course, the number of units that are scheduled to be phased out between now and the year 2000, that problem, the ticking time bomb, it's so clear what's going to happen if those programs are not adequately funded.

Mr. FAUNTROY. My time has expired. I want to yield to the distinguished ranking minority Member of the committee and one whom I personally consider to be the champion of the least of these in so many areas coming before this congress, Congressman McKinney.

Mr. MCKINNEY. Welcome all of you. I don't have any questions but it's constantly amazing to me that people think our housing problems can go away. I have three small cities which aren't as old as Allentown or others: Norwalk, Bridgeport, and Stamford. I always seem to be in this CDBG fight. I did a quick cross-rough of Norwalk, CT, which goes from half a million dollar homes on Long Island Sound to absolute abject minority poverty downtown, to two-, three-, and four-acre zoning up north. It's a big land area.

I'm not about to accuse the taxpayers of the city of Norwalk, but it's interesting to note that all of the mayor's efforts from day care to feeding programs to mod rehab housing to everything else in the "less desirable parts of town, are all financed by CDBG. And if he didn't have it, Democrat or Republican they have all been playing

the CDBG game for years, nothing would be done. I'd like to hold out hope, but I won't because you can't go in front of the city's finance board and ask for, say, a 5 mill increase in taxes to do these programs. You're just not going to get it.

There is a great expression that Eddie Koch's financial lady, who used to work for the Budget Committee used. She said, the revenue sharing funding was real money. It was the mayor's money to do what had to be done for the people of the city. CDBG is the last gasp of real money from Washington.

Categorical grants aren't real money because you've got to raise the money to match them, and that's the problem.

And what is Congress going to tell you you have to match with? Twenty percent this year, 50 percent next year, 30 percent the year after that. You have no way of knowing.

So you can rest assured that as far as the chairperson and I are concerned, I couldn't do a thing in many of my rich suburban cities and towns without CDBG.

In Fairfield, we just opened a halfway house for the mentally retarded, a residence right on the Boston Post Road. That took us 6 years. And the only way we finally got the money for it was to take it out of community development block grant funds. It's now a success and it's now open and everybody thinks it's a pretty good idea.

So maybe the taxpayers will come up with some money and we can go on to another project for CDBG. But it's very tough and it's one of our few unencumbered, real sources of money for mayors, city councils and finance boards for which they don't have to go to the general public.

What we're all saying here is there's a certain benefit in Congress' machinations by being miles away from home. Even I am 298 miles away from home, so I don't get beat over the head with a baseball bat all the time.

God help communities if Congress ever forgets its responsibilities. So we're with you all the way.

Mayor DADDONA. Wonderful.

Mr. FAUNTROY. Thank you so very much, Mr. McKinney. The cause of community development has been immeasurably enriched in this 100th Congress by the addition of the person who I now call for questioning, Mr. Mfume of the 7th congressional district of Maryland.

He fills the very significant shoes of Congressman Parren Mitchell, who before he passed the title to Stu McKinney, might well have been considered the champion of community development in this Congress.

Mr. Mfume, it's a real pleasure to yield to you now for questions.

Mr. MFUME. Thank you, Mr. Chairman. I appreciate your kind remarks. They seem to get kinder each week. Many years from now, they ought to be at least worthy of publication. [Laughter.]

I want to say briefly that I don't necessarily have any questions. I do want to express my agreement with your remarks, as well as the remarks of the ranking Republican, Mr. McKinney, and to take just a moment to welcome again Council member Bachur to the committee today. She brings with her a long list of community and legislative accomplishments as an outstanding member of the Baltimore County Council.

For some time, we served in sort of complementary roles when I was for 8 years a member of the city council. She is a lot brighter and certainly a lot prettier and has been a long-term advocate for housing in the State of Maryland.

We're happy to have you here this morning. And rest assured that this committee understands full well your testimony, as well as the testimony of the others who have preceded you, and we share your concerns as well.

Thank you for being here.

Ms. BACHUR. Thank you.

Mr. FAUNTROY. Thank you. Let me yield to another new member of our committee whose addition certainly enables us to focus sharply on these questions and who we are looking forward in the years to come to contributing much to the legislation we draft, Mr. Saxton of New Jersey.

Mr. SAXTON. Thank you very much, Mr. Chairman. I want to join with the members who have spoken previously in support of the CDBG Program and to echo as they have how we feel it is of great importance to our municipalities and cities all across the country.

I have one specific question. When the President, my President, released his budget proposal this year, he indicated that, as you have all mentioned in your statements and your answers to your questions, that the CDBG program be dramatically altered and reduced. And he included language in his proposal which suggested that towns like Cherry Hill, New Jersey could take care of themselves, which hit rather close to home.

[Laughter.]

As the person who represents that town, and I suggest when he used the language, "towns like Cherry Hill, New Jersey," he may have been suggesting that there are other towns like that all across the country that don't need help. And I immediately communicated to him that while Cherry Hill, New Jersey and towns like that may have more affluence than perhaps some other towns, perhaps other cities, that Cherry Hill has some poor neighborhoods and Cherry Hill has some poor people that live there, and that the rights of those poor people are no different than the rights of poor people who live perhaps in a less affluent community.

I guess my question is, have any of you experienced or have you received any information that would further clarify what the President was talking about, whether he was talking about across-the-board reductions in the CDBG Program or whether he was going to target towns like mine or any information that you have to shed some light on that. The administration has been relatively quiet and has not responded to my requests for further information on that point.

Mayor DADDONA. It's hard to say what the administration meant. They have not submitted any proposals to NLC to let us know what they were referring to.

But I do know that the nice thing about CDBG is its flexibility because a town could use it the way it sees best in terms of its needs. Every town has problems, no matter what, how affluent that town is. The flexibility of CDBG would mean that you'd get the maximum use of it in Cherry Hill as we would get in Allentown because of the overall goals that CDBG attempts to achieve.

So I wouldn't agree. I just don't agree with what the President said in that statement.

Ms. BACHUR. No.

Mayor ABRAMSON. There were strong arguments made against that statement at the mid-winter meeting of the U.S. Conference of Mayors and the feeling that there was some either misconception from the administration or some lack of knowledge in terms of how this cut across every community based on a formula that focuses on each and every community throughout the United States.

So I know of no specific targeting, but certainly, a Cherry Hill or a Fairfield or any of the communities that are generally perceived to be more affluent than others still have a segment within them that could very well click in the formula and provide some assistance from the Federal Government for their human needs.

Ms. BACHUR. I can speak on behalf of my own county, which is a large county and an urban county. We have about 670,000 people. Like Mr. McKinney's city, we have the richest and the poorest. To not be able to target CDBG money to the poorest sections would really severely hamper our ability to do the things we need to do to deal with unemployment, to deal with day care, to deal with senior day care programs for particularly those areas, but some areas throughout the county where the need still exists.

Mr. SAXTON. Thank you. One other question, and this is on more of a positive note.

Do you feel that the regulations through which you must use CDBG funds are too restrictive, not restrictive enough? I've talked to some of the folks in my district who administer CDBG funds and the impression that I get from them is that perhaps if communities had more discretion as to how they could put those funds to use, that they would perhaps be more effectively used.

Mayor ABRAMSON. Congressman, obviously more discretion would be something that local governments would choose on any bill or any funding mechanism that you might propose.

At the same time, what we're looking at is more restrictive standards being set, regulations being promulgated by this administration.

Our position on behalf of the U.S. Conference of Mayors is, yes, we would want even more discretion, but we certainly would rather the continuation at the level of the regulations today than those being proposed by the administration that would make it, in our judgment, more restrictive and less available to be used for low and moderate income family needs.

Mayor DADDONA. In Allentown, we had no problem complying with the regulations. Certainly more discretion would be welcome. But we wouldn't want that if it would mean that it would open up debate and perhaps jeopardize the chances of the H.R. 4 getting the universal support that we hope it now has.

If it would mean that it would create differences in different parts of the country that would force some congressmen to oppose it, then we would say, let's leave it as it is because the important thing is to get it approved and at the funding levels that we're asking.

Ms. BACHUR. We have no problem with the existing regulations if we could only see them. It seems that they're tied up in Justice.

And if you could help us at all in getting them released, we'd really appreciate it.

Mr. FAUNTROY. Thank you so very much.

Mr. SAXTON. Thank you, Mr. Chairman.

Mr. FAUNTROY. All right. Mayor Abramson will be comforted to know that the State of Kentucky is well represented on this committee and that you have a friend from the west in the distinguished gentleman from Kentucky, Mr. Hubbard, who, like myself, was opposed to the seniority system when we came here.

But the longer we stays, the better we likes it. [Laughter.]

And he has moved up the ladder here and you can rest assured that when you answer his questions, that your responses will be heard and heeded in the full committee.

Mr. Hubbard?

Mr. HUBBARD. Thank you very much, Mr. Chairman. I appreciate your kind comments.

I'm sixth on the full committee, and you can see where I sit on the subcommittee. [Laughter.]

But I do get to sit next to Congressman Kennedy. I can tell my constituents that back home. [Laughter.]

They would relate to that for sure. [Laughter.]

We welcome Ms. Bachur, Mayor Daddona, and certainly we welcome the very popular, young, handsome bachelor attorney, Mayor of Louisville, KY., Jerry Abramson, who is one of my favorites from my home State of Kentucky.

It's true, I do live in western Kentucky. But I grew up in the city of Louisville. He's my mother's mayor. He's my brother's mayor. And we welcome you here and we're very proud of you and also proud that you are representing not only the great city of Louisville, KY., but also representing the U.S. Conference of Mayors and serving as cochair of the task force on reauthorization of the Community Development Block Grant Program.

I, too, support House bill 4 and we're glad that you're here to testify on behalf of that, and to urge us to not only support House bill 4, but to retain the spending provisions contained in this important legislation, which obviously was introduced the first day of the 100th Congress.

I apologize for not being here to hear your testimony. I was in the Merchant Marine and Fisheries subcommittee on merchant marine where we've had testimony beginning at the same time as this subcommittee.

I don't really have any questions, except to reiterate my support for House bill 4 and to welcome all three of you, especially the mayor of Louisville, whom I hope will continue to come to Washington often.

This young man has a bright future and some day he may travel up here much more often as a Member of Congress. I hope so.

Thank you, Mr. Chairman.

Mr. FAUNTROY. And I thank you. May I yield to the distinguished ranking Member of the full committee who has graced us with his presence here and whose interest and concern on this matter is legendary as well.

Mr. Wylie?

Mr. WYLIE. Thank you, Mr. Chairman, for your warm welcome. I, too, want to extend a warm welcome to the distinguished panel which is before us today.

The Community Development Block Grant Program has been an excellent program and it's going to be even more significant in view of the fact that revenue sharing is out. I get those words from my mayor, Mayor Rhinehart, who is an ardent supporter, as you know, of the community development block grant program, too.

We did get the administration's proposal just yesterday, late in the afternoon. I haven't had a chance to digest it yet. But it is out. And you're right, Jim. There is targeting in that administration proposal, so you may want to take another look at it. I want to look at it and see how it impacts on some of the cities in my own congressional district, of course.

What they recommend is a level of \$2.6 billion for the community development block grant program, and you contrast that with \$3 billion, which is the level of spending for fiscal year 1987. I assume this has already been testified to, but the level in H.R. 4 is \$3.4 billion. I have a feeling that we'll come out somewhere around the fiscal year 1987 level.

That's just a guesstimate on my part. I haven't talked to anybody. But I think you'll find almost unanimity of support for the Community Development Block Grant Program. We're glad to have your testimony and we'll let you tell us how important you think it is.

Thank you very much, Mr. Chairman. I have no questions.

Mr. FAUNTROY. I yield to the distinguished gentleman from Connecticut.

Mr. MCKINNEY. May I? I noticed your comment about let's not complicate the bill so that it sails through.

No housing bill ever sails through Congress. So we're going to need all your support and all your help and all your attention because what we feel should sail through usually is dodging shoals constantly from strange and nefarious places.

We of the midwest and we of the northeast where the problems are old and tired need all the help we can get.

Mr. WYLIE. That's true. Well, I think I'll just leave that there. There will be some differences of opinion.

I think that the \$22 or \$23 billion funding level, depending on what figures you use, probably is a little higher than we could sign off on. It still may pass the House. I don't know.

Mr. FAUNTROY. Ahmen. I mean—excuse me. [Laughter.]

Mr. WYLIE. "Ahmen" is a little too high. [Laughter.]

Thank you, Mr. Chairman.

Mr. FAUNTROY. Thank you. Forgive me for having the mike open.

One of the constant refrains in recent years on this committee has been how would it play in Toledo? For that reason, I am proud to yield to the distinguished gentlelady from Ohio, from Toledo, Marcy Kaptur.

Ms. KAPTUR. Thank you very much, Mr. Chairman. I have no questions at this time, but wanted to welcome all of the witnesses and thank them for their excellent testimony. I also wanted to say that the Community Development Block Grant Program has really been used well in our city. You wouldn't even recognize the down-

town area now because of the investments that have occurred in conjunction with UDAG over the last several years. We have a couple of new developments proposed as well.

I guess the only problem we have, is that there are so many strains on CDGB now because of its use for housing. There just isn't enough to go around with some of the cutbacks that have occurred recently.

So we sure appreciate your leadership on this and your willingness to come and testify.

Thanks, Mr. Chairman.

Mr. FAUNTROY. And I thank you. Members of the panel, about 6 years ago, the State of Delaware and its people were wise enough to send to us its treasurer to serve on the Banking Committee. He doesn't believe that money is everything, but he has decided after being on this committee that it is so far ahead of whatever is second best when it comes to dealing with the problems of our cities that he has proved to be a valuable member of the committee as well.

Mr. Carper?

Mr. CARPER. Thank you, Mr. Chairman. I didn't come to hear the witnesses or to ask some questions. I just came to be introduced by you. [Laughter.]

But while I'm here, let me just ask one question of each of our witnesses. I would ask, and perhaps you've addressed this in your testimonies and I missed it. But we are living in a world where we spend, as a government, a great deal more money than we're taking in. We're looking for ways to reduce those deficits. We're going to have to increase our revenues and we're going to have to hold the growth of spending in a lot of areas.

Given that sobering reality, what kind of changes do each of you think that we need to make in existing law in the programs that you're particularly interested in, in testifying about today? But what changes do we need to make legislatively or regulatorily to enable you to spend the dollars that are going to be allocated for these programs more efficiently?

Mayor ABRAMSON. Congressman, I think if really what you're asking is where are we going to get the money and how can we continue at the levels that are proposed in either H.R. 4 or any of the other bills that focus on cities, I can say to you again, as I tried to say in my testimony, that in the last 6 years, cities of America have lost 68 percent of all the Federal funding that come our way, the last 6 years.

In 1980, the President's budget carried with it a \$50 billion deficit.

Mr. CARPER. Let me just interrupt. Let me just restate my question so that it is clear.

Mayor ABRAMSON. OK.

Mr. CARPER. Perhaps it is not. The gentleman from Ohio, Mr. Wylie, suggested that there probably will not be significant increases in the funding for these programs. Given the likelihood that the level will probably be more or less the same, what changes can we make, even giving you the same dollars that would give you a bigger bang for the buck and enable you to stretch those dollars a bit further?

Mayor ABRAMSON. Well, the answer goes back to Congressman Saxton's question, and that is flexibility with what you give us.

Mr. CARPER. Can you be more specific?

Mayor ABRAMSON. The more discretion—the more we get back to the focus of general revenue sharing, where mayors, aldermen, city councils have the opportunity to make the priority decisions themselves at the local level, I think would be the thing that would help us the most. If you're focusing on we're going from where we are today, we're going to stay at that same amount of money, how can we help you, mayor, handle the problems in Louisville, KY?

My answer to you would be all those funds that you give us from whichever way you give us, provide as much discretion to the local governments as possible. And we could find, as best we can, the priorities that need assistance in our own respective communities.

Mr. CARPER. Can any of the witnesses be a bit more specific than that? I appreciate the need for broad discretion and that sort of thing. We're not going to go back to the Federal revenue sharing, I suspect.

What specific changes will these specific programs that you've addressed and spoken to, what can we do? In what particular areas are you constrained?

Mayor DADDONA. In Allentown—first, let me speak for the NLC. We support all the provisions as they are in H.R. 4. If the Congress adopted H.R. 4 the way its written now, we think that we will have that flexibility that will allow us to get more bang out of a lesser dollar.

But in the area of economic development, though, if there were some changes that would allow us to use more flexibility in terms of how the dollars are used to create and save jobs, Allentown is one of the cities that used to be a heavy manufacturing town. Mack Trucks was real big. Over the years, we've lost a lot of those jobs in both our garment industry and in heavy truck manufacturing.

And as a result of that, we've got to be able to keep the jobs that we already have or bring in new industry or business to locate in our city.

We wish we could use more of the CDBG dollars for that. But there are certain restrictions on it that prevent us from using it as flexibly as we would, in light of the UDAG programs being reduced and in light of all the EDA programs being phased out, if we could use some of that. But, again, I would not want that to be a requirement in order to get the bill adopted.

We want to see the bill adopted first.

Mr. CARPER. OK. That's the kind of response I'm looking for, just a practical, real-life example. If anyone has others, I'd sure like to hear them.

Ms. BACHUR. No, I don't. Our biggest concern, other than funding levels, are that counties continue their entitlement status. If you'll note in my testimony, the things that we're really interested in are ways of maintaining the 200,000 threshold.

Thank you.

Mr. CARPER. All right. Good. Thank you.

Mr. FAUNTROY. If the gentleman would yield?

Mr. CARPER. Yes, sir.

Mr. FAUNTROY. Do I get the impression that you would like to see the targeting for low income reduced?

Mr. CARPER. No, no. Not at all.

Mr. FAUNTROY. Thank you. I won't pursue that further.

The distinguished gentleman from Texas, Mr. Bartlett, was here at the outset of the hearing and had to step out. He's had an opportunity to read your testimony, however, I'm sure, and would want to question you at this point.

Mr. BARTLETT. Thank you, Mr. Chairman. And I do apologize for not being here for the verbal part, but I have read the testimony and am quite intrigued and I have some questions on specifics.

Mayor Daddona, you had on pages 5 and 6 of your testimony, you pretty well listed out the priorities that you would place, and I assume—let me rephrase that—you listed out the priorities that were in the survey that you had made of the cities on housing priorities.

Mayor DADDONA. Yes.

Mr. BARTLETT. Do you generally, and does your organization generally concur with, the National League of Cities, concur with those priorities?

Mayor DADDONA. Yes. In fact, I think those were the priorities that were determined as a result of the survey that was taken of 444 cities. Allentown was one of those 444. So we match very closely with what the overall results were.

Mr. BARTLETT. Mayor, I made a list of them in your testimony and I want to read them out slowly and see if we're on the same—because I think that the priorities we've listed are, in fact, the priorities that we ought to put in this bill. And then I'm going to ask you the question, if you were in our shoes, would you place these as the priorities of the legislation?

Financial assistance for renters.

Rehabilitation for single-and rehabilitation for multi-family housing, number two.

Number three is greater importance or additional rental assistance certificates; that is to say, existing section 8.

Number four, public housing operating subsidies.

And number five, section 202.

Now, my question is if those are the priorities, if you were in our shoes, would you shift the nonpriority spending, which is substantial that is in the housing authorization, H.R. 4, and the existing programs, would you shift nonpriorities into these priorities to fund these higher?

Mayor DADDONA. Could I have a moment, please?

Mr. BARTLETT. It's a loaded question, so I'm not trying to tell you that it's not. But I'd suggest that that is, in fact, the question that we have. If these are the priorities, should we shift nonpriority money into these priorities?

Mr. FAUNTROY. May I answer the question for you?

Mayor DADDONA. OK. No. If I could just comment briefly.

H.R. 4 addresses the need on a comprehensive basis. It does reflect addressing the concerns that were brought out in the survey. It doesn't necessarily have to follow exactly those priorities, though.

Mr. BARTLETT. Are there any existing Federal housing programs that are not priorities with you?

Mayor DADDONA. Well, if they were, we wouldn't say it.

Mr. BARTLETT. I know that. But I'm trying to get you to—

Mayor DADDONA. Because we're trying to—

Mr. BARTLETT. I'm trying to get you to just be honest with your own testimony as to what you believe we should do.

Mayor DADDONA. Well, in order for legislation like this to get broad-base support, it's got to be flexible. It's got to have the broad-base kind of capability to use in numerous ways, rather than tie it in to just priority. What might be a priority for Allentown, might not be a priority for Louisville.

Mr. BARTLETT. Well, these are the priorities of the National League of Cities.

Mayor DADDONA. Yes, in a cross-section of 444 cities.

Mr. BARTLETT. OK.

Mayor DADDONA. And although we address all those concerns, the H.R. 4 is more comprehensive and allows flexibility.

Mr. BARTLETT. Well, let me suggest to you that if we're setting up the word "comprehensive" and the word "priorities" as two conflicting ideas, well, then, I, for one, would choose to use the priority system as opposed to the "comprehensive system," if that means that we try to do everything.

Now I want to suggest to you that I'm very supportive of passing a housing reauthorization bill, as I was in the last session. And I think we ended up, by the time we got it through the House floor, with a pretty good bill, because after we finished our work on the committee and then to the House floor, the Congress, or at least the House, did adopt some priorities and we ended up with a total aggregate spending that was at a suitable enough level that we should have been able to get it passed. We hadn't built up the support through the course of the session.

If we do it the same way this year and put everything in the bill at the committee level, and then don't pass it out of the House floor until we get the result of a large floor fight and a lot of partisan posturing, and we confuse the entire country, well, the result will be no bill again and no prioritizing.

So let me ask the question another way. Do you think that we should prioritize among Federal housing programs, or do you think we should try to do everything that we're doing now in the same ratio?

Mayor DADDONA. How do you prioritize, though? How do you get the right priorities?

Mr. BARTLETT. Well, we ask witnesses who are mayors and city council members where they believe our priorities should be.

Yes, Ms. Bachur?

Ms. BACHUR. Yes. I think we're at the point where we're down to the priorities. We've lost so much funding, our needs are so basic now, that what you see before you may have a numerical order, but you can hardly call them priorities. They're just different tools for handling problems.

Mr. BARTLETT. Well, no one mentioned new construction of public housing units, for example, in your testimony, and that's a billion dollar or so item.

Ms. BACHUR. Well, I think I did mention that in my testimony.

Mr. BARTLETT. I'm sorry.

Ms. BACHUR. In that I suggested—I requested that we not be given authority to use CDBG money for new construction because we really can hardly fulfill our needs as they are now, unless we're going to have additional money commensurate with the new ability.

But we're really down to the basics. States are looking at ways—in Maryland, we passed a comprehensive housing bill last year to help us deal with it. Local jurisdictions are putting money in it. And we need the Federal Government to maintain its partnership with us.

Mr. BARTLETT. Mayor Abramson?

Mayor ABRAMSON. I would even go a step farther, Congressman. It seems to me that we're talking in terms of constituencies. I agree with what's been said in terms of the fact that we have different constituencies. Yes, we do need assistance with maintenance money for housing projects. No question.

We have millions of people living in them. In my community, as I said, we have 24,000. I've got to do something about them.

At the same time, section 8 certificates, vouchers, whatever you want to talk about in terms of trying to create opportunities separate and distinct from having those pockets of poverty in the housing projects, is a very important program.

At the same time, 312 assistance and rental rehabs to allow people to stay in their homes, stay off the homeless rolls, et cetera, each one of these programs, in my judgment, focuses towards a different constituency. You throw UDAGs in where you're trying to attract private money into urban areas where the risk in the past has been too great and they simply have passed up cities for their investment, and you see that each opportunity, each program focuses on a different constituency and a different need.

Mr. BARTLETT. Let me ask the question a different way.

If you had an extra billion dollars to spend in housing, where would you spend it?

Mayor ABRAMSON. An extra billion?

Mr. BARTLETT. Where would you do it?

Mayor ABRAMSON. What I would do is what I'm saying to you, and that is to review the constituencies. Some would have to go into public housing in my community, no question about it. Some would have to go for expanded section 8 opportunities to subsidize people living in already privately owned homes. Some would go into a 312 rehab—

Mr. BARTLETT. You're saying so you wouldn't make any choices. You would spend it on et cetera, a little bit of everything?

Mayor ABRAMSON. No, not et cetera. I can draw for you distinct constituencies of those in the low and moderate income area that need help.

What I'm saying by my response is that all of it should not go into public housing. We should not house everybody in public housing units as they do today.

All of it should not go into section 8 because that program, by itself, forgets that I've got 24,000 people in public housing and 3200

families on a waiting list. Those are the kinds of things that you have to put into some kind of parity.

Mr. BARTLETT. Fair response. Thank you, Mr. Chairman.

Mr. FAUNTROY. The time of the gentleman is expiring. I'd extend the time, if you'd like.

Mr. BARTLETT. Mr. Chairman, I'd have just an additional question, if the witnesses would like to respond in writing later or now.

It would be very helpful, and I was a member of the National League of Cities and an active member and was on the city council, chairman of the housing committee before I came to Congress. It would be extremely helpful if you could provide with us a list, if you would, of the ways in which the existing programs, in your judgement, could be improved in terms of their effectiveness.

Now, I think at least two of you, and perhaps all three, mentioned the one improvement which I agree with, and that is a multi-year authorization. And I think if we can be allowed to build some political consensus—conservative, liberal, moderate, for a housing reauthorization, then I think out of that consensus could come a multi-year authorization.

My question is, from your perspective in the real world, are there other improvements, specific improvements such as Mr. Carper asked, that you would make in these programs? I know and you know that they're not perfect. And so, would you provide additional flexibility and modernization money? Would you provide additional local control? Would you provide portability within an SMSA of section 8 certificates? Would you provide for tenant ownership or tenant management?

Are there improvements that you would make in the programs other than in increased funding?

Thank you, Mr. Chairman.

Mr. FAUNTROY. Thank you. The gentleman's line of questioning is very stimulative. I'd just proffer one question that I'd like to raise with the panel, and it is a question that begins, would you not agree that in response to the question, are there elements of H.R. 4 that ought to be prioritized to the neglect of others, that as representatives of associations of cities and counties, the bill attempts to address a variety of types of needs that may vary from county to county, from city to city. And so that any one program might certainly meet the needs of you in Louisville, but it might not be of any relevance to an equally as distressed community elsewhere in the country that might have another type problem.

And that's why the balance that we sought to achieve in covering a variety of the needs in the bill is there.

You would agree with that, wouldn't you?

Ms. BACHUR. Yes.

Mr. FAUNTROY. That's what I thought. May we now hear from the distinguished representative of what was known years ago as a steel city of Birmingham, but which over recent years, given the flight of capital and jobs from this country, has had to make a number of adjustments and is making those adjustments, I think, admirably well with the kind of representation that it has here in the Congress and the kind of mayor that it has.

Mr. Erdreich?

Mr. ERDREICH. Thank you, Mr. Chairman. I don't have any questions to present to the panel. I notice that my colleague, Mr. Bartlett, mentioned his prior city activities. I must say that I was a county commissioner for 8 years in my earlier era, and then also served at the same position as the young lady here is serving in the NACO activities as community development chairman, or whatever the title of that particular panel was, and I'm familiar with the problems and needs of counties and cities.

I appreciate your testimony and I can assure you that as we go through H.R. 4, all of us want to do really what Mr. Barlett said—come up with a measure we can enact into law and one that will provide for both the basic community development and housing needs in this country which are so evident in the counties and our communities. And I thank you for coming.

Thank you, Mr. Chairman.

Mr. FAUNTROY. And I thank the gentleman from Alabama. At this point, we want to express our sincere and heartfelt thanks to you for the care with which you prepared for this hearing and the clarity with which you've made your presentations.

Mayor ABRAMSON. Thank you.

Ms. BACHUR. Thank you.

Mayor DADDONA. Thank you, Mr. Chairman.

Mr. FAUNTROY. Thank you so very much.

May we now hear from our second panel, which includes: Mr. John Simon, the president of the National Housing Conference; Mr. Barry Zigas, the president of the National Low Income Housing Coalition; and Ms. Roberta Youmans of the National Housing Law Project.

We're so very pleased to have these three distinguished citizens to represent the very important organizations that are working in the area of housing, as indicated by their titles.

Gentlemen, thank you so very much for your preparation as well. We have your testimony and we do look forward to your presentations. You have the option of reading them in their entirety or you may wish to summarize. In any event, they will be included in the record.

Thank you also for your patience in awaiting your opportunity to testify. I'll now recognize Mr. John Simon, president of the National Housing Conference.

STATEMENT OF JOHN SIMON, PRESIDENT, THE NATIONAL HOUSING CONFERENCE

Mr. SIMON. Thank you, Mr. Chairman. My name is John Simon. I'm the president of the National Housing Conference, which is the oldest housing organization in the country working for affordable housing in cities and other communities.

We represent not only the low income housing sector, but the private sector, the nonprofit sector, the financial sector and, indeed, the development sector.

It is always a great pleasure to appear before this committee and Chairman Gonzalez. When we think of San Antonio and the housing field, we don't think of the Alamo; we think of the Chairman and his staff and this committee, who have been valiant in defend-

ing, with Mr. McKinney's assistance, who last year got the Carl Coan, Sr. Award of the National Housing Conference for his efforts. It is this committee which has held the line for 6 years and prevented, I think, the complete destruction of the housing and community development programs.

I'm not going to give the litany of what happened in the last 6 years. I just want to mention that in 1981, Secretary Pierce spoke to a group of us in Colorado Springs and said that if the cuts that he proposes were made, if the deficit reduction program of the President were to take place, if the housing programs, if the construction programs were eliminated and moved to vouchers, then the housing problem in this country would be eliminated and there would be housing for all. The trickle up theory would take place.

And you know what happened. The downpour theory took place and there have been no housing programs. We are here today where we are because of 6 years of mismanagement by the administration and by HUD of these programs.

The homeless are just one item which you're all aware of. We feel that you can't have social stability in this country if you have no housing for low and moderate income families. As you have a number of homeless existing in any city, if you have people sleeping in the streets, if you have people sleeping in city halls—it just happened in Los Angeles, where the National Housing Conference just had a meeting. If you have families overcrowded into one-bedroom apartments, if you have people paying more than 50 percent of their income for rent, then you cannot have sound family life, for which this administration so prides itself.

If children don't have a place to do their homework, you can't have them do well in school. And I believe that if something isn't done about it now, we will have to pay a terrible price later, as we are already, indeed, beginning to pay the price.

But it isn't just the homeless that are at stake now. It is the low and moderate income families in this country as well.

We submitted written testimony to you and I don't want to belabor the written testimony and repeat it. I just want to make some additional comments in connection with this testimony.

But I want to say also that this committee, this Congress, not only with H.R. 1, which, unfortunately, did not pass, but with H.R. 4, has enabled us to see the end of the light of the tunnel. I think if H.R. 4 passes—it is not a perfect bill, but certainly, it is more than a half of loaf. It is eight-tenths of a loaf. And if that were to pass, I think we are on the beginning of recovery in the field of housing, community development, and related programs both for low and moderate income families.

Now I want to tell you there's not a single approach possible. It will require the States and cities to do their jobs as well. It will require the public and private, and particularly the nonprofit, sector to assist.

But in the case of low and moderate income families, in particular, it will require monies from the Federal Government. After all, it's the Federal Government that collects and will collect most of our taxes, the new tax bill notwithstanding.

And in view of revenues shrinking for cities and counties and, indeed, in view of the tax bill which does, we believe, some damage

to lower and moderate income housing development, we need the Federal Government to assist to maintain these programs and to advance them further.

We are also very concerned about the exploration of many of the subsidized programs in the months and years to come. I think that's the danger on the horizon which must be addressed. Much of that housing which originally assisted on a 20-year period, and most section 8 contracts are only for 15 years or 20 years. The 20-year period has begun to expire on 221(d)(3)'s below-market interest rate projects and these numbers will increase over the next several years and remain high through the year 2005. And no matter who is in the Congress, and no matter who lives in the best public housing project in the country at 1600 Pennsylvania Avenue, they will have to deal with this crisis and make these large amounts of monies available, not just to provide additional housing, but maintain that which we have.

The National Housing Conference has established a task force of public, private and the nonprofit financial sector to look into this. And with your permission, Carl Coan, who's our general counsel, will speak to your committee members and to your staffs about some recommendations we will have as this committee, this task force, continues its work.

I'd also like to make a comment about public housing. To paraphrase Shakespeare, the bad that public housing does is often spread throughout the country on page 1 and 2 of television and newspapers. The good that it does is hidden in page 99, if at all, in the press.

We know that there are problems and Mr. Fauntroy, I know you have problems in Washington, DC. But you know that 80 percent, 90 percent of the public housing stock is well managed, is functioning, and, if anything, needs additional funds to maintain it and perhaps to create additional housing.

We are concerned about the fact, however, that these attacks on public housing are used by the enemies of public housing to make an attempt to destroy this very worthwhile program.

I come from a city which has a 21-year waiting list in New York for public housing. Even in Washington, you do have a waiting list for the program. And I agree with you that improvements should be made. I agree with you that tenant input is important. I agree with you that we have to put our own house in order.

But I don't think that we ought to throw the baby out with the bathwater in this particular instance.

I'd also like to mention to you another concern which we have which is very important and which is in H.R. 4, where we perhaps don't completely agree with you. This is one which would sanction switching funding for public housing development and the like from the tested and tried long-term financing approach to one of capital grants.

We understand that the committee has taken this approach as a result of the operation of the budget process which at least initially places greater emphasis on budget authority than outlays. At the modest development level contained in the bill, such an approach does not make too much different. But if we were ever, and we must, to attempt to return to more significant development levels

consistent with past years' programs, levels and present needs, sole reliance on this new approach will be devastating to this effort.

So we urge you to take another look at this particular item.

I'd like to say parenthetically, I know you're in a budget crisis. I know we've been in a budget crisis for many years. I know the deficit has grown and now perhaps has stabilized, at best. At worst, it's not stabilized. But we in the public housing field want to tell you—we in the housing field, I should say—want to tell you we certainly plead not guilty to the deficit. We have taken the biggest cut of any program in the country. We have taken our lumps and certainly, if anything, have contributed to a reduction of the deficit, albeit, with all these bad results that you're so aware of.

Last, I'd like to make a comment on fair housing. And I'd like to say that you can't really have fair housing if you don't have plentiful and adequate housing. You can't have fair housing if you don't have an adequate supply of low income housing and you certainly can't have fair housing if you don't have an adequate supply of moderate income housing.

We support the Fair Housing Initiative Program proposed in H.R. 4. We urge that perhaps some of the rigid guidelines for carrying out the test activities be limited in the legislation. But I want to tell you from personal experience, being married to a black woman, that fair housing is not really effective in this country as yet, and that in both States in the east and in the west and perhaps moreso in the south, fair housing legislation is necessarily required if we're not going to have a two-tier system of housing in this country—one for the very low income, one for the minorities, one for the affluent.

So I urge you to please take another look at the fair housing bill and support it and make sure it passes.

In conclusion, I'd like to say if you read our testimony, we support H.R. 4. We have some items we wish you would have done more. We know the budget restrictions. There are some items which perhaps we don't disagree on. But you really ought to be congratulated on pushing this bill as hard as you're doing. And we know that this time it will pass because if it doesn't, there's real trouble ahead in the years to come.

Thank you.

[The prepared statement of Mr. Simon can be found in the appendix.]

Mr. FAUNTROY. And we thank you, Mr. Simon. Now, Mr. Barry Zigas of the National Low Income Housing Coalition.

STATEMENT OF BARRY ZIGAS, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION

Mr. ZIGAS. Thank you, Mr. Chairman. It's a special pleasure to come today before you as the chairman. You're my congressman and this is a special pleasure. So congratulations. You're doing a great job.

Mr. FAUNTROY. Thank you.

Mr. ZIGAS. I'd like to thank the committee for inviting us here today. My name is Barry Zigas and I'm president of the National Low Income Housing Coalition. I would like to submit my written

statement for the record and just cover a few other areas in my oral statement.

First, I'd like to note a few highlights of our statement, while not going through it in any detail. We submitted ten lengthy pages of testimony. I think it speaks for itself, and I don't want to try to review it in any detail with you today. But there are a few highlighted areas I'd like to mention in passing.

Second, I would like to cover three specific areas that are touched on in my testimony and I would like to go into them in some greater detail.

I would like to discuss changes to the Community Development Block Grant Program that my organization, working with a coalition of other organizations, feels deserve your attention and consideration in the 100th Congress in H.R. 4.

Second, I would like to speak to you about our hopes for consideration and adoption of the Community-Based Housing Supply Program that we first brought to your committee in June of 1984 as a result of a long grassroots process of development.

Finally, I would like to speak, as all of the other witnesses have, to the problem of expiring use restrictions and the potential loss of hundreds of thousands of existing federally assisted housing units that the country faces unless swift action is taken.

First, to speak about specific items that are covered in my testimony that I'd like to just touch on again. I add to all the other witnesses our fervent hope that the committee move quickly on H.R. 4, that we get through the House floor quickly, that we meet with the Senate quickly, and that we get a housing authorization this year.

It's critical to re-establish the priority for housing assistance, for community development programs, for urban programs in the 100th Congress and to start moving forward again with housing authorizations instead of just simply hoping for the best through continuing appropriations.

So we congratulate you on the work you've done so far. We congratulate you for holding quick hearings and having an expedited schedule. And we will support you throughout that process in your objective.

Second, my statement does go into a lot of detail on a whole series of particulars. I would just like to highlight a couple of things for the record in my oral statement.

First, I would like to emphasize our support for the Neighborhood Development Grant Program that is contained in this legislation. In working with neighborhood organizations throughout the country, we find this is the source of funding that they have been able to take advantage of. They believe it is a sound program and we support its continued funding.

Second, we congratulate you for adopting a permanent reauthorization of the Home Mortgage Disclosure Act. As you know, we have struggled for years with triannual and 5-year reauthorizations of this program. Each year we have wound up exactly where we started, which is with a functioning Home Mortgage Disclosure Act. I think the proposal to repeal the sunset provisions, which are contained both in H.R. 4 and in the Committee Print that the

Senate is going to be taking up today are laudable and we fully support them.

Finally, one point I'd like to emphasize is our strong support for the increased funding levels that you have provided for the Community Development Block Grant Program. As I said, I do have some comments later about things we hope you'll do to change the program, but that is in the context of our full support for increased funding for that program throughout the country.

I'd like to clarify one portion of my written report with regards to the provisions for aliens residing in public housing. And what I meant to say in my statement was that we support repeal of section 214. To the extent that the amendments to H.R. 4 provide additional protections, we support them. But we find that anything that would jeopardize the ability of long-term residents, the elderly and families with children to continue in residence in public housing to be both unjust and inequitable and we urge you to adopt whatever it takes to prevent that from happening.

Finally, there are some provisions of H.R. 286, the Homeless Persons Survival Act, that we hope you will incorporate into H.R. 4. As you know, that bill covers a vast array of programs that would assist the homeless, but some of them involve the Community Development Block Grant Program and housing priorities in cities. Among other things, the bill has a provision that would require cities to certify that they are doing their utmost to preserve low income housing stock, particularly single-room occupancy housing, in order to qualify for community development block grants.

It seems to me that's a fair and very sensible requirement. Your bill already would amend the HAP plan to require jurisdictions to take into account the needs of homeless persons and to plan for providing assistance for them, and we fully support that.

Another provision in the Homeless Persons Survival Act that bears your close consideration is one that would require as a condition of receipt of CDBG funds the use of tax-foreclosed properties for shelter for the homeless. We are working with the sponsors of that legislation on possible changes to that provision that would provide more flexibility to local governments, but I think the idea that surplus property at the local level be made available for these purposes, among others as well, is a valid one and one that this committee should not shrink from requiring cities to do.

Let me turn now to the Community Development Block Grant Program. You heard a lot of testimony this morning from very capable people administering this program about its virtues and the great things that it does. In our experience working with community organizations, low income advocates and tenants, we have found that there's no question that the Community Development Block Grant Program is the major source of funding for opportunity programs in low income neighborhoods. It is the main source of housing rehabilitation funding. And for many communities, it is the only source of money left to undertake anything remotely like neighborhood development.

We fully support the program's reauthorization. We support a much higher funding level even than H.R. 4 has. But we feel that the increase that's in the bill is very important.

We do know, however, from working with our constituents that there are many jurisdictions in which the targeting requirements of the Community Development Program are honored less in day-to-day reality than in the breach. We have continuing reports from our constituents of economic development activities, claims to benefit low income persons with no particular plan, with no particular documentation, and with no particular proof that low income economic development is actually taking place.

We found city after city where any expenditure on downtown development counts as economic development and is credited as a low income benefit—this really is improper and in a period of shrinking resources, it's really unacceptable.

I think the committee needs to be concerned about another area that it faces in this program, and that is continuing budget pressures. We have been around with the budget committee members week after week, year after year, pleading for the continuation of this program and its protection from further budget cuts. And each year we have been told by both Democratic and Republican members of those committees, "this program cannot be protected in its current form because it does not adequately target its resources to low and very low income people."

If the cost of maintaining the program in its current form is losing its funding, as the administration would propose, then I think that we have our work cut out for us.

The proposals that we have developed in close cooperation with both national and grassroots organizations representing low income people would do the following five things.

First, it would establish clear and tough anti-displacement requirements on the use of CDBG funds.

Second, it would re-establish the application and review requirements which governed this program prior to the Gramm-Latta Budget Reconciliation Act of 1982. I would remind you that at that time, we had a review and application process that involved HUD extensively in working with localities and developing their programs and plans. It was a system that nobody seemed to feel needed to be fixed, except for the incoming Republican administration.

It has been done away with, to the great detriment of citizen participation and other priorities that we think are important at the local level.

We urge you in this bill to consider re-establishing that application and review process which was on the books for 4 years prior to the Gramm-Latta amendment.

Third, we urge you to re-establish the citizen participation requirements which applied to the program prior to 1982. Again, these are program priorities, program requirements that are not being invented out of whole cloth. They would simply return to a program operation that people were comfortable with prior to 1982.

Fourth, we would urge you to require grantees to establish and prepare economic development plans, much along the lines of housing assistance plans, that would require communities to assess the need for economic development among low income people, to lay out a plan and a program for addressing these needs through CDBG spending. Many of our members have found that often, lo-

cally funded economic development activity is an untargeted subsidy for downtown development. They very much support the use of these funds for economic development. More than anybody else, perhaps, low income residents understand the need for job opportunity, for commercial business opportunity, and for a healthy functioning community.

Too often, these same residents find that city economic development spending bears little or no relation to those needs. We urge you to impose an economic development plan that would simply require jurisdictions to undertake this kind of planning and demonstrate in their applications how they plan to meet these lower income needs through their economic development spending.

Finally, we propose that you require the targeting of the Community Development Block Grant Program to encompass 100 percent of the funds and require them to be used to principally benefit low and moderate income people through a variety of different eligible activities. Within that 100 percent targeting, we suggest and urge that you adopt a floor of at least 51 percent of the funds which would have to be spent on very low income households, those with incomes below 50 percent of the area median.

Again, our community groups find again and again that at the local level, it's extremely difficult to force spending on very low income community development communities. There is a bias and a tendency to move towards higher income neighborhoods. They're easier to work with. They have a different mix. They don't present the same intractable problems from a city official's point of view.

Be that as it may, it was clearly the Congress' intent in passing this legislation to provide benefits to low and very low income persons.

I would comment on the administration's proposal insofar as I understand it, and say that I think you have here developing some very clear choices for the committee. The administration is suggesting that this program is inadequately targeted, that it wishes to cut back its funding and in doing so, proposes to eliminate certain cities or eliminate whole census tracts and whole parts of communities as eligible for receiving and benefiting from Federal spending.

We think this is a foolish approach. We think it's throwing the baby out with the bathwater. But we think that there is an issue here that needs to be addressed. We think we have proposed sensible, progressive, workable solutions to the concerns our constituents have brought to you and we urge you to consider them.

We have submitted to some of you detailed white papers containing all of these recommendations and we will continue to work with you through the mark-up to bring these amendments forward.

Let me speak next about the Community-based Housing Supply Program.

In June of 1984, we came before you with a program and a platform that had been developed through extensive citizen participation throughout the country culminating in a meeting in 1984 here in Washington. The Community-based Housing Supply Program was designed by people in communities operating housing programs, having experience with former programs, concerned about

the way in which Federal housing assistance was made available in communities.

The Community-based Housing Supply Program, as we have developed it and refined it, would provide grants through State and local governments to be used with nonprofit development organizations to develop housing that principally serves low and moderate income people for a period of not less than 40 years. This program would dovetail nicely with the new low income tax credits that were approved last year in the Tax Reform Act. As you probably know, that provision requires at least 10 percent of the credits to be set aside for use by nonprofit organizations in projects which they sponsor.

The Community-based Housing Supply Program would be an important means by which to ensure that nonprofit housing organizations can fully participate to the extent that the Ways and Means and Finance Committees, and later, both houses of Congress, envisioned they would when they passed this legislation.

We will be circulating to all of you our summary of this. We are working with a couple of members both in the House and Senate to get legislation drafted that would embody the community-based supply program and look forward to working with this committee during the mark-up of H.R. 4 on those issues.

Finally, let me touch on housing preservation of the existing stock of subsidized housing.

All of the witnesses here today have come to you and said, this is a ticking time bomb, a problem that needs to be addressed. We could not agree more. We testified, I believe, the last time you held hearings on these bills with much the same story. All that's changed in the last 2 years is that the problem has gotten worse. The number of units in jeopardy has grown and the number of people at risk of displacement from already existing federally assisted resources has expanded tremendously.

We have a number of suggestions right now that we hope you will consider as you mark up H.R. 4. You already have some provisions in the bill that we applaud. We have suggested some minor changes to them in our written testimony which we hope you will adopt.

But in addition to this, I think more drastic steps are necessary. First, I hope you will consider imposing a temporary moratorium on any prepayments of any project-based mortgage subsidy programs until you have adopted full protections and full compensation for tenants who would be at risk for displacement through such prepayments. You have put in a right-of-first-refusal provision which we think is very useful. It will not help if there is no money available to assist nonprofits in purchasing these properties. It will be no help to a displaced tenant to know that there was a right of first refusal offered that no one could pick up.

You've seen the consequences in the Farmer's Home Program of imposing a moratorium. Thousands of families who were at risk of being displaced are not being displaced. And this committee is working hard to come up with a solution that both addresses the concerns of consumers and producers and owners of this housing. And I would suggest to you that we would not come to a good agreement on what needs to be done with the HUD housing until

we impose a similar kind of halt that forces people to come to the table.

Other solutions I would urge you to consider as you mark up, when you have prepayments where contracts are lost in the 236 program, do not repeat the mistakes that were made in the rent supplement program when it was shifted to section 8. Do not allow the remaining budget authority that's attached to the section 236 assistance contracts to lapse, be recaptured, or terminated and returned to the Treasury.

These funds could be put into a special fund for the use of providing replacement housing and relocation benefits for families who are displaced this way, and also for providing additional funding to support and maintain the existing supply of housing.

You have already voted on this money. It will not really affect the deficit one way or another and you won't get credit for it in the budget resolution. If you are going to permit prepayments and are going to permit owners to walk away from their commitment to maintain this housing for low income use, you should at the very least recapture and re-use the funds which are allocated to pay for the low income subsidies in those projects.

Finally, another area we hope you'll investigate is the creation of a national housing trust fund for the specific purpose of financing the long-term availability of existing housing commitments to low income people.

Telling low income people who are now receiving Federal assistance that their lives, their ability to afford housing, their continued tenancy, depends on a legislative crapshoot each year as to whether the Congress will in fact vote enough money to both maintain current tenants and add new tenants to the assisted housing inventory is a terrible dilemma and would be a terrible crime.

One way you can get around this is by creating a specific fund that would be devoted only to making sure that these contracts continue to be financed.

I know you had witnesses yesterday who spoke to you about trust funds. I know many people have been meeting with you about possible revenue sources.

I would simply urge you when you think about trust funds to remember the trust that low income tenants have placed in you as their legislators, the people who write this legislation, to not leave them in the lurch and not throw them out in the street because the Congress comes to a point where it can no longer get appropriations to both add new stock and protect existing tenants.

Madame Chair, thank you very much for your tolerance for my rather lengthy statement. I'll be happy to answer questions.

[The prepared statement of Mr. Zigas can be found in the appendix.]

Ms. Kaptur (presiding): Thank you very much, Mr. Zigas. I think, in the interest of time, we can save questions until after the next witness testifies.

Before calling on Ms. Youmans from the National Housing Law Project, I just wanted to welcome the Girl Scout troop that came into the room.

Mr. McKINNEY. It's their 75th anniversary.

Ms. KAPTUR. That's right, 75th anniversary. I started my career as a Scout. And so we're really happy to have you here. We hope you enjoy your time in Washington. We have no idea where you're from. I assume they must be from—from Ohio? Really? Welcome.

I'm from Ohio, also. I'm from Toledo, OH. We're very happy to have you here.

I wanted to call on the next witness, from the National Housing Law Project, Ms. Roberta Youmans.

Thank you so much for being with us this morning.

STATEMENT OF ROBERTA YOUMANS, NATIONAL HOUSING LAW PROJECT

Ms. YOUMANS. Thank you, Madame Chairman.

The Housing Law Project, on behalf of its very low income clients in need of or presently residing in federally assisted housing, appreciates the opportunity to testify before you. We'd like to submit a supplemental statement for the record within the time frame, if that's all right.

As in 1985, when we came before you, we reaffirm our views that it's essential that Congress continue to add to the affordable housing stock, essential that the housing stock we currently have be preserved, that the housing we provide to low income families be affordable to them, that the rights of federally subsidized tenants be preserved and strengthened, and that all attempts be made to prevent homelessness before it occurs.

The committee is to be commended for dramatically increasing the amount of budget authority in H.R. 4. Compared to the funds proposed by the administration, this bill provides funding for subsidized units for the elderly, for families, as well as some existing certificates. The administration proposes a voucher program, which in many markets will not work.

We find that in many markets, there is a critical need for an affordable housing supply. Yet, section 213 of this bill proposes to limit the development of public housing unless certain conditions are met. These provisions are a marked improvement over those passed on the floor of the House last year. But we think that this is not the way to ensure that public housing projects will be repaired. What's needed instead is more money for the repairs of those units.

It's hard enough to meet all of the approvals for development of public housing; the committee shouldn't make it harder.

On the other hand, we do support the committee's change in section 219, which would prevent the demolition of public housing projects if they could be rehabilitated. At a time when few low income housing units are being added to the stock, this seems a logical policy.

We also support section 219's proposal for a one-for-one replacement of units with project-based subsidies.

Two years ago, when we testified before you on H.R. 1, we talked about the need for a legislative solution to the problem of vacant public housing units. We think that, despite the fact that HUD has promulgated regulations to address this issue, it would be helpful to include language which would require housing authorities to

fully utilize all of their units. The longer units stand idle, the greater the chances of vandalism and subsequent demolition.

We commend the committee for including in H.R. 4 the multi-family housing preservation provisions of section 242 to 245, as well as 261 through 268. Both of these sections will go a long way toward preserving and maintaining thousands of rental units that were financed under some of the earlier HUD insurance programs.

These provisions, which were included in H.R. 1, have been revisited several times and the latest version contains many modifications suggested by the administration itself.

In our February 19, 1987 letter to your staff, we provided additional clarification, and suggestions on these sections and would be happy to work with the committee on further modifications.

As others have testified today, we are now approaching the time when many multi-family housing projects can be prepaid. For most projects, this point is reached 20 years after the original mortgage endorsement. In most markets, many low income families will not be able to afford to continue to live in these units once they are prepaid and a possible increase in homelessness could occur.

To deal with this problem, we agree with Mr. Zigas' statement in which he mentioned a need for a temporary moratorium on all prepayments. We have other suggestions that we think could be used in the long run to address this issue and would be happy to work with the committee on those.

Many owners of projects assisted with project-based section 8 contracts are also permitted to get out of the long-term use requirements of the program. Some of the earlier section 8 projects had shorter contracts and many of them are now permitted to decide to that they don't want to remain in the program any longer.

We think legislation is needed to explicitly require HUD to adjust the fair market rents for those programs to reflect what's happening in the market surrounding those projects.

In addition, owners should be required to give HUD prior notice of their intentions to opt-out and HUD should be required to review the owner's reasons to determine if HUD itself could do something to encourage those owners to remain.

Finally, we propose that owners who refuse to renew these contracts be required to sell their projects at fair market value to public or private nonprofit entities who will stay in the section 8 program. This is just one example of the hemorrhaging of the stock and we think that every step along the way should be made to preserve those units.

Because of the tremendous unmet need for affordable rental housing for very low income families, we believe that any homeownership program that utilizes the existing public housing stock is a bad idea. While the amendments in H.R. 4 represent a dramatic improvement over the amendments that were discussed last year, we still oppose them.

As other witnesses mentioned, we are quickly approaching the time when thousands of low income families may be faced with displacement as their long-term subsidies expire. To our knowledge, there's only one category of subsidized housing in which this will happen this year. In 1987 and 1988, 5-year section 8 loan management contracts will be coming due. In 1987, we have about 6600

units and in 1988, about 5000. And it's important that language be included in this bill to require additional budget authority to be provided to renew those contracts, or else budget authority appropriated for other units will be diverted to those units or such families will inevitably be displaced.

I'd like to applaud the committee's inclusion of a utility allowance modification included in H.R. 4, section 202(c)(2). We are finding that over the years, housing authorities are not properly calculating the utility allowances for their tenants and then tenants that were supposed to be paying 30 percent of their income end up paying a lot more.

We commend the committee for including this change.

The bill also provides for an annual adjustment for the Voucher Program. As Congress is aware, one of the primary reasons that vouchers are cheaper is because there is not an annual subsidy adjustment built into the program similar to that in the section 8 existing program.

Currently, public housing authorities only have to adjust the subsidy payment twice during 5 years and that is not even a mandated requirement. So we applaud the committee's proposal to amend them on an annual basis, which won't necessarily mean that tenants will only pay 30 percent of their income, but it will mean that such units may be a bit more affordable.

Now I'd like to spend a little more time than usual on one provision in H.R. 4 that we are adamantly opposed to, and that is the ceiling rent provision.

In our testimony on H.R. 1, we opposed the idea of ceiling rents for public housing and, if anything, a deepening of the housing crisis has caused us to even more adamantly oppose it in this bill. The same committee that advocates for increased assistance to the homeless cannot in good conscience support a provision which will, in essence, keep upper, and I have upper in quotes, income families in public housing while those with lower income languish on waiting lists.

Ceiling rents benefit only the highest income tenants. There is no justification for charging a tenant with an annual income of \$5000, 30 percent of his or her income for rent if higher income tenants can pay 15, 20, 25 percent, which is what this provision would do.

In some cases, the lack of ceiling rents may force upper income families to move out of public housing projects. However, those tenants have more money at their disposal and should be able to find housing on the private market easier than those with incomes below 50 percent of the median.

There is another provision in H.R. 4 that would also limit the amount of subsidized housing that is available to the very low income, and this is section 203. This provision would have the effect of reducing the overall percentage of units available to families below 50 percent of the median.

Under current law, many owners of subsidized housing projects, as well as housing authorities, may bypass families with very low or no incomes in favor of those with higher earnings. In fact, in one case in Rhode Island, an AFDC mother was number one on the section 8 waiting list for a particular project for 5 years. Every

That only further adds to the poor morale among the authority. It makes the authority look bad. It then becomes even more so the housing of last resort.

And I'd like to make another comment which people tend to ignore. Maybe you don't, but others do.

When a housing authority is in trouble, when it's being beaten by everybody, when it becomes the housing of last resort, it also becomes the employer of last resort. You then have poor staff morale. You cannot attract middle management. You cannot attract professional management. And you can't even attract any kind of employees that are willing to work.

Now some people think that tenant management may be a solution to this in a very few, selective instances where you have really dramatic and dynamic leadership available. But in over 2000 housing authorities in the country, that isn't possible. So everything should be done to improve the image of the authority.

I mean, Chrysler couldn't sell its cars because they had a bad image. Now they've got a good image. I don't think their cars are really very much better. I have one. But I think their image has improved, and that has helped the company to the point where they can buy up another company.

This vacant housing that you talked about is a millstone around the public housing's program. We should either do away with it and bite that bullet or, in many cases, do the things that I suggested—build it back up, improve it, make it a magnet project, spend the money. And I think at that point you will find that people are willing to live in it.

And I want to reiterate—Roberta, I'm sorry to say it—that if you have economic integration, you have more attraction to the public housing program.

That was a long-winded answer. I'm sorry.

Ms. KAPTUR. Well, I appreciate it very much for a housing professional to admit that there might be some vacant units out there that people choose not to live in. I appreciate that honesty.

I wanted to call on our leader here, from the ranking Member on the minority side, Mr. McKinney, a reknowned housing expert, who tells me that he's up to his ears in trying to deal with some of these troubled areas in his own home State.

Stu, do you have any questions?

Mr. MCKINNEY. Well, thank you, Madame Chairman. Probably more comments. I can tell Ms. Youmans, although I agree with her, is not in politics when she brings up 214. Something does have to be done about it, but let me tell you, it's a political bombshell, particularly in a blue collar, hard working city such as Bridgeport, CT, down the road a little from New York.

I was amazed, Mr. Simon, when I went to see the Nehemiah project and spent some time there. Now I'm trying to get some of my own mayors to go and take a look at it.

How many of those people came out of public housing?

Mr. SIMON. Forty percent.

Mr. MCKINNEY. And by the mere acquisition of a place of their own, they freed up enormous amounts of apartments for other people. I was also interested in my chairperson's comments about vacant units. We don't have any vacant units in Fairfield county,

unless they're destroyed. I mean, if they've got cold water that drips out of the faucet, somebody will live in them. Our average rents are outrageous. My daughter was living in a second floor walk-up with her child, she's divorced, and was paying \$795.00 a month, plus utilities. I mean, it's boggling.

I tried a little experiment. I don't know what I can do to get HUD to do something about Father Panik Village: it's a disaster. James Baugh of HUD has called it the worst housing development of its type he's seen in the northeast.

In fact, we just got the biggest Federal housing grant in the whole United States last year to try and do something about it. And now I'm having trouble getting the tenants to believe it because they don't trust anybody. I can't say as I blame them.

We chased what we called vacancies for a few years and we found out that if, say, Unit A was empty, the windows were usually gone within about a day and a half, so that Unit B got wet, which was occupied. And I pleaded with my housing authorities, which are badly run, that the minute an apartment gets vacant, to move in a housing authority policeman with a bed and a television set and put him there because if you don't, within 4 days, the fuse boxes are gone, the stoves are gone, the apartment is trashed, the toilets are gone, and the whole place disappears. And therefore, you have lost a real vacancy. You have created a major rehab vacancy.

So you put plywood over the windows to try and keep the weather out, and who wants to walk into a building with plywood on about three out of fifteen windows? Nobody that I know in their right mind.

Do you think we should legislate something that's going to make HUD decide to set regulatory process and tell these housing authorities they've got to do something about these vacancies?

They tell me, Stewart, we don't even know that they've left. I said, well, you've only got 1195 apartments and it could be difficult, but you can certainly tell because the neighbors know. You've got a building captain. And do you think we should legislate something about these vacancies, because the line in Bridgeport, by the way, is about as long as it is in New York.

Mr. SIMON. Who are you asking?

Mr. MCKINNEY. You, Mr. Simon, because nobody knows better after your experience in New York what you do about this mess.

Mr. SIMON. I don't know about when a vacant apartment becomes vacant and it's vandalized the next day. But I do know that one of the major differences in New York has been the fact that money is available for security. If you have a security force, by the way, that knows its tenants—not the city police that knows everybody—but if your security force is located in the development, or a number of developments, they know their tenants, they know the trouble-makers, they know the good people, they can relate to the families—and that deals, frankly, with the fact that the security force, to some extent, may have to reflect, without setting quotas, now, the population, you will find that the vandalism will decrease and that the condition that you have won't exist and that these vandals may take their business some other place.

You may not want them where they're taking their business to, by the way. We found that out. They took the business from the public housing when we got tough with them in certain areas and they went to the private sector. But that's another story.

But I think HUD has been negligent and, to some extent, I guess, the Congress, in not recognizing the fact that if you put all this money and all these subsidies into these developments which, by and large, house frequently troubled families in difficult areas, and you don't provide security, you're wasting your money.

Some of us have said this for many more years than we'd like to admit to. But I can see all the protection you're giving the government buildings in the city. If you didn't have these various people around, they ride around in cars that to me look like taxis, by the way, but in these automobiles, in this security, I don't think your buildings would look as good as they do.

And I think if you did the same thing for public housing where it's needed, not in some city out west where everything is calm and quiet, but in the cities that you're talking about, you would save enormous amounts of money and that expenditures would be repaid, I guarantee you, in less than 5 years.

And tenant morale would improve. And when tenants' morale improves, crime decreases, the rent collection is better, and the evictions that we are all so concerned about can be sharply reduced.

Mr. McKINNEY. And though I don't know whether it was a problem in New York, our enormous problem has become what I call euphemistically double occupancy. Good security would stop that right away, too, because most of your double occupants are drug dealers when they're not sleeping.

Mr. SIMON. Not in New York, sir. I want to say that. In New York, the doubled up is simply a prevention for the homelessness. Approximately, of the 180,000 public housing apartments in New York, the occupancy now is probably at about 240,000. Many projects are doubled up and tripled up, not by any people who are necessarily illegal in any way. They simply have no place to live. And if they didn't live doubled up, they would live in the street. And it's a policy of the mayor and the housing authority, and has been, not to take action against them because you'd increase the homeless problem.

But you know what it does to the elevators and to the equipment and to the infrastructure of having 25 and 30 percent more families living in the development. And, of course, it makes the program look bad and it just tears up the grounds and the services and everybody says, oh, that's public housing. But if it wasn't for the doubling up, you'd have another 50,000, 60,000 or 70,000 homeless in New York, and God knows there are enough now.

Mr. McKINNEY. Mr. Zigas, I'm going to sort of ask you this one, and anybody else can comment on it.

I've been on a crusade which makes me about as popular as the plague in most of my towns, middle class, low middle class, and public housing.

Is there something that Congress should do to get American cities to act as responsibly as New York has with the land for Nehemiah? Hartford, CT has been with condemned and vacant lots,

Boston has available land as do other cities. But I can't do a thing—I can build a townhouse for \$40,000, but I can't put it on a \$70,000 building lot. And with the compaction of success which has left many behind which is why some of us were out on grates the other night, the land demands are extremely expensive. And yet, our cities are sitting on empty schools, tax-condemned land, abandoned factory lots, and et cetera.

Is there anything we should be doing here which says, in essence, I know it's a tough decision, but if you want Federal money to house your citizens, you're going to have to do something to supply us with the land. And you, the State of Connecticut, are going to have to stop charging a 7½ percent sales tax on building materials, stuff of that sort.

What do you think?

Mr. ZIGAS. Well, Mr. McKinney, I think there's no question that one of the things we've seen in the last 10 years is that when local governments alone are left to make this decision, particularly in affluent communities, they choose not to make it. And one thing I would suggest to you is that experience showed that in a Community Development Block Grant Program, when there were still stronger targeting regulations, when there was an application and review process, when HUD more aggressively had a mandate and undertook a mandate to deny community development funds, the communities that refused to do anything affirmative to address their housing problems, we saw a lot more cooperation among recalcitrant jurisdictions in this committee's jurisdiction.

Mr. McKINNEY. Well, Norwalk, Connecticut got denied its CDBG over fair housing and you should have seen the city council run around in little concentric circles over that situation.

Mr. ZIGAS. Well, I think this committee has within its jurisdiction legislative authority to impose certain kinds of requirements on the CD program that would motivate communities to do more than they might otherwise. I think in other instances, nothing short of judicial intervention is going to suffice.

New Jersey for years struggled with this question of how to provide affordable housing in its communities and finally, through the Mount Laurel decisions, now has—I guess Mr. Schwartz was here yesterday and probably talked somewhat about that—a tremendously aggressive program where if the cities themselves won't do it, the State agency goes in and does it for them.

Mr. McKINNEY. Well, I simply could not describe to you the east side of Bridgeport, so I'll try not to. But I'll say that I hired only my second press secretary about 6 years ago. She worked for The Washington Star when it was still around. I took her up to bucolic Connecticut and she saw Greenwich and Stamford and Fairfield and she said, wow. And then I took her down east Main Street and she said, Jesus, it's worse than Detroit.

And it is. And yet, you know what's happened? The city, in its astute wisdom has put a Jai Alai front on there. And on top of that, now you have dreams of Donald Schaefer's Baltimore Harbor Project dancing like sugar plums in different developer's minds. There's a new development that is going to be called Harbor Point, which is going to surround this enormous public housing area and

which has taken the land values of burned-out Berlin, which is what the east side resembles, up by over 85 percent in 2 years.

It's all speculative, but it absolutely locks up the housing market if the city doesn't give us what land they have already condemned in "burned-out Berlin" taken for tax foreclosure.

I think we should do something to make these cities realize that they must cooperate like New York. My God, New York gives away more land than any place, and they've got more land to give away. I'm always fascinated that you can go down to 86th Street and rent a studio for \$1600 a month and then drive about 35 blocks and turn right and you are looking at fake windows.

It's a real problem and I don't know whether you people have ever given any thought to some kind of a whiphand over these cities if they apply for money.

Ms. YOUMANS. I think that this is what the "Homeless Persons Survival Act" is attempting to do. Those sections that Barry talked about, I'm not sure you were here for that, would amend the CDBG Program to say, if you get money under this program, you must develop ordinances that make vacant properties available, either to shelter providers, low income renters or for home ownership programs, and that you must have ordinances to preserve your rental housing stock and your SROs.

I think there could be some language incorporated into these Federal statutes to say what you want to say. It's not going to be popular, as one can imagine, with localities that would prefer to receive CDBG funds unencumbered. But if Congress is giving them the money and they're talking about how horrible homelessness is they too, must do their part. Section 8 subsidies or vouchers won't work either if the Federal Government, the States and localities don't work to increase and preserve the supply.

So I think we can do it, but it's going to be hard.

Mr. MCKINNEY. Beautiful words falling on willing ears. It's funny because let's forget the poor and the homeless for a minute and think of the rich suburban community, Westport, CT. Lovely town. Median income—\$42,000 per home.

OK. All upset. Everybody's upset. They want me to supply section 202 or whatever for the elderly, to take care of mother. I went in front of the loving board about this. A building lot on Long Island Sound in Westport, by the way, a building lot, nothing there, probably not even a sewer, is \$1.75 million and that's the cheapest one we have for sale.

I went in front of the town board of reps and suggested 750-square foot grandparents' apartments which could be rented either to young people, my children, or rented to old people that paid the taxes for the last 50 years in the town. At 750-square feet, I certainly realized it wasn't going to fill up with children, plus the fact that the town has two-acre zoning, so who's going to know?

How many votes do you suppose I got out of 76 people, most of whom have been on my case about getting them seniors housing?

One. One vote. One lady voted with me. The other 75 turned it down. And that's a real problem. I would like to be able to turn around to my town—this is political death, you know. Commit suicide, McKinney. I'd like to turn around and say, you want senior help from the Federal Government? You've got to have mother-in-

law apartments and your two-acre zoning. But I don't have much support, Mr. Chairman.

Chairman GONZALEZ. Well, are they registered to vote?

Mr. MCKINNEY. They are. They really are registered in that town.

Chairman GONZALEZ. Then you've got a problem.

Mr. MCKINNEY. OK. Thank you very much, all of you. You're a good panel.

Chairman GONZALEZ. Thank you, Mr. McKinney, as always.

Mr. McCollum, do you have a statement or question?

Mr. MCCOLLUM. Not at this point. I came in late. I apologize to the panel. It's just not fair of me to ask questions, Mr. Chairman.

Chairman GONZALEZ. Well, I'm in the same position. I wanted to apologize because I had to appear before a subcommittee on the armed services on a matter that has very important consequences in my own district. I wanted to apologize to the three witnesses.

I have had an opportunity, though, to read your testimony and, as always, it's been a very valuable help to us in the course of these hearings on H.R. 4.

I know that both Mr. Simon, Mr. Zigas, Ms. Youmans have helped on our last authorization bill in 1985—H.R. 1, the 1985 housing authorization and community development authorization.

Frankly, you've done more than what we had anticipated. I don't have any particular questions that have not already been asked. And I don't want to keep you here listening to my views because we coincide.

I wanted to thank you very much, Mr. Zigas, Mr. Simon, Ms. Youmans. We will continue to work together. We are very optimistic this year with a general comprehensive authorization bill. But it's been your support and your help and your input that has made it possible for us to sustain, even though it's been sort of a rear guard fight over the last few years. I think now, because of your help, we're in a position to progress pretty quickly.

We hope to go into mark up by the end of this month and hopefully have House action in April and have the bill out of the House in April.

So thank you very much.

The subcommittee will stand recessed until 2:00 p.m. this afternoon. I want to remind the Members that we'll be having witnesses from the home builders, realtors, and mortgage bankers association this afternoon. It's an important hearing, and it will be at 2.

If it's at all humanly possible, I would urge you very much to be here.

[Whereupon, at 12:07 p.m., the subcommittee recessed, to reconvene at 2 p.m. of the same day.]

AFTERNOON SESSION

Chairman GONZALEZ. The subcommittee will come to order and we'll resume hearing.

I had three accredited members of this committee in tow, and I thought I was going to bring them with me and I lost them in the elevator. But I have a solemn oath from each that they'll be here in a few minutes. There's some kind of an impromptu meeting with the assistant secretary of the Treasury and I just wanted to alert

you gentlemen that we'll have some Members here from the subcommittee.

The Chair asks that we be forgiven and I apologize duly for being late. But I really did have three members and it was my hope that we could start off with at least four present. But we'll have that many before too long.

The panel this afternoon I believe is one of the most distinguished we've had. And in the past, the representatives of the very important national organizations here today have been indispensable in at least holding some kind of a lifeline on some of our housing programs.

So I wish to express the gratitude of this subcommittee and begin—if there's no objection, I will try to recognize the witnesses in the order that we have them listed here, unless one of you has some problems with scheduling, or the like. If not, we have listed Mr. Dale Stuard, the first vice president, National Association of Home Builders. And if it's otherwise OK with you, why, we'll start with you and then just proceed counter-clockwise.

STATEMENT OF DALE STUARD, FIRST VICE PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. STUARD. Thank you, Mr. Chairman. My name is Dale Stuard. I've been a builder for 35 years. And I'm the first vice president of the National Association of Home Builders.

We commend you, Mr. Chairman, for moving rapidly to consider this housing bill, the first housing bill to be enacted on its own merits in 6 years. We realize this bill represents unfinished business from the 99th Congress. But that certainly was not due to your lack of trying. To paraphrase Shakespeare: "Three times did you present them, the housing bill, which they three times refused." [Laughter.]

We once again offer you our general support on this legislation. Specifically, I would like to address some of the issues which concern NAHB.

First, we strongly support the prohibition on new or increased user fees on mortgage credit programs contained in H.R. 4. The administration's attempt to increase GNMA fees ignore the prohibition contained in the House and Senate versions of last year's housing bill. Mr. Chairman, the proposal to increase the FHA fee on July 1st shows that some in the administration have not yet learned this lesson.

These proposals are part of a larger effort to reduce Federal involvement in essential credit activities, which would only increase housing costs for homebuyers at the lower end of the market.

We believe the administration's other proposals to restrict FHA should be ignored.

For example, the FHA Investor Loan Program is of great importance to renters and builders alike. The Census Bureau reports that 30 percent of all renters live in single-family housing. The program also provides builders with an important tool for inventory control.

A recent HUD report shows that private mortgage insurers have virtually abandoned the investor segment of this market. If FHA

were to withdraw from this market, private insurers would not meet the need. We urge this committee to extend the investor loan program as part of the overall extension of FHA.

This subcommittee shared our frustration as FHA's insuring authority was allowed to expire six times in 1986. Mr. Chairman, the market place will not tolerate such delays and homebuyers deserve better treatment from Congress.

For this reason, we support permanent extension of the FHA insuring authority as proposed by the distinguished ranking Member of this committee, Representative Wylie, and Representative AuCoin of Oregon.

Mr. Chairman, we also urge you to increase the FHA single-family mortgage limits. The FHA base of \$67,500 has not been adjusted since 1979 and we believe increasing the limit and making adjustments in high cost areas should be dealt with this year.

Mr. Chairman, we support your efforts to provide responsible levels of funding for the Farmers Home Administration's rural housing programs. The Congressional Research Service projects a housing shortfall in rural housing of 375,000 units between 1986 and 1990. The vouchers proposed by the administration will not address this need, nor will they alleviate the problem of a lack of adequate housing in many rural areas.

We also oppose legislation which would retroactively eliminate a borrower's contractual right to prepay rural section 515 multi-family loans. But we do support efforts to encourage retention of this vital housing in the low income stock.

Regarding manufactured housing, the Manufactured Home Construction and Safety Standards Act of 1974 provides HUD standards for construction, design and performance of manufactured housing built on permanent chassis. The housing built to these standards is exempt from State and local codes while conventional housing must meet all State and local building codes, including stricter structural and energy requirements.

NAHB strongly urges this committee not to change the definition of manufactured housing under the 1974 Act. If the chassis is removed from a manufactured home, it should not be eligible for the HUD code and should be required to meet all State and local building codes, including the higher energy and structural standards required for conventionally built housing.

To remove the chassis of a manufactured home and place it on a permanent foundation may give the outward appearance of a conventional home meeting all the State and local building codes. However, since the structural and energy requirements are considerably less for the houses built to the HUD code, this has only added confusion in the market place.

We also encourage the committee to examine closely the problems Ginnie Mae is experiencing with its manufactured home loan portfolios. We understand Ginnie Mae has taken back three portfolios containing \$800 million and this is expected to increase to \$1.5 billion by the end of 1987. This could represent a serious problem for GNMA, and we look forward to working with your subcommittee staff to find out what those problems are and what remedies may be needed.

We also recognize the need to address the issue of preservation of the assisted housing stock, and look forward to working with you, Mr. Chairman, and Representative Barney Frank who is developing legislation in this area.

Mr. Chairman, a final word on the eloquent testimony presented yesterday by Governor Dukakis of Massachusetts. It is heartening to see that some States have taken a leadership role in developing innovative solutions to producing and rehabilitating rental and single-family housing. But it is more gratifying to sense a renewed political commitment across America for a revitalized Federal role in housing.

Mr. Chairman, you have waged an often lonely struggle on behalf of housing. But as Longfellow once wrote: "All things come around to him who will but wait."

Thank you for the opportunity to present our views and I'll be happy to answer any questions.

[The prepared statement of Mr. Stuard can be found in the appendix.]

Chairman GONZALEZ. Thank you, Mr. Stuard. I'm deeply grateful and humbled at the same time with your words.

We'll proceed with Mr. French. By that time, I'm sure we'll have some other Members and then we can conclude the witnesses and have discussions, dialogue and questions.

Mr. French?

STATEMENT OF THOMAS M. FRENCH, JR., PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. FRENCH. Thank you, sir. And my compliments to you, Dale, for fine testimony.

Mr. Chairman, and members of the subcommittee, whenever they come— [Laughter.]

My name is Thomas M. French, Jr., and I'm chairman of the board of BancBoston Mortgage Companies in Jacksonville, FL. And I also serve as president of the Mortgage Bankers Association of America.

I'd like to stress two things this afternoon. The first is, obviously, the urgent need for legislation to block this administration's continuing attacks on the Federal mortgage credit programs. The second is the need for a cohesive and long-term national housing policy—a goal, Mr. Chairman, we all recognize you have long sought.

Let me begin by expressing on behalf of MBA our extreme gratitude for the leadership and the swift action demonstrated by the Chairman, the Full Banking Committee and the Congress in the successful effort culminating in the final congressional passage of H.R. 1056 this past Tuesday. We're all very excited about that.

This bill will prevent Ginnie Mae from imposing fees on its mortgage-backed securities program above those actually needed to keep the program sound and healthy. The passage of this legislation reinforces congressional intent expressed over the past 6 years that it will not stand for increased user fees on the Federal mortgage credit programs. And we believe this bodes well for a strong and resurgent national housing policy.

As mentioned, MBA is deeply concerned by provisions in the administration's Fiscal Year 1988 budget proposal that call for increased user fees and other restrictions on an array of Federal mortgage credit programs operated by the FHA, VA, Ginnie Mae, Fannie Mae, and Freddie Mac. In this regard, MBA strongly supports provisions found in H.R. 4 which prohibit increases in user fees on these Federal programs.

These, of course, are not spending programs. MBA and its members have supported the payment of adequate fees to cover operational costs of all the Federal housing programs, except the VA, which is an entitlement. Current fees are already providing operating profits.

What we are talking about is our alarm at the administration's proposals to tax the Federal housing programs under the guise of user fees without any suggestion that the fees are based on the actual risks inherent in insuring or guaranteeing the mortgages on low, moderate, and middle-income housing. For 6 years now, the administration has been trying to cripple or eliminate these self-supporting programs, and for 6 years, Congress has said repeatedly no.

Thus, the country, and particularly the homebuyer, has become dependent on Congress for positive leadership in housing matters.

As you are aware, the Tax Reform Act of 1986 contains provisions that facilitate the issuance of multiple-class mortgage-backed securities. MBA believes that this new vehicle, known as REMICs, will add to the growth and efficiency of the secondary mortgage marketplace.

The REMIC legislation provides for the full participation of Fannie Mae and Freddie Mac, both as issuers and in allowing their securities to be used as underlying collateral. In this regard, Fannie Mae has recently submitted to HUD a program description whereby it would issue REMICs backed by conventional loans.

In a letter dated March 5, 1987, HUD has informed the committee that it intends to delay its decision on this matter for still another 45 days.

MBA strongly supports issuing authority for Fannie Mae and Freddie Mac in REMICs transactions. Their presence has not impeded the advance of private entities into the secondary mortgage market, and their full participation should not be excluded from the markets they have so diligently worked and helped to develop.

Furthermore, their full participation will add much-needed stability to the REMICs marketplace and will thus serve as a continuing presence that investors may use as a benchmark to judge private issuances.

In addition to the foregoing, MBA strongly supports inclusion in housing legislation provisions making, first, FHA insuring authority permanent.

I think my associate on the left pointed out earlier the problems of the recurring lapse and we hope that this debacle will not return.

Second, continuing authority to include closing costs in the FHA mortgage amount calculation.

Third, increasing FHA's maximum insurable mortgage amount to reflect increased housing costs over the past 8 years.

And finally, permanently extending Fannie Mae and Freddie Mac's authority to purchase second mortgage loans.

On the subject of national housing policy, MBA agrees with the Chairman that it is time for an in-depth re-examination of this country's national housing policies and priorities, particularly in light of the attempts of the current administration to get the Federal Government out of the business of providing credit support to homebuyers, and this, of course, is a critical element.

As such, we have made this for our association a top priority; that is, national housing policy. And we thank you, Mr. Chairman, for this opportunity.

[The prepared statement of Mr. French can be found in the appendix.]

Chairman GONZALEZ. Thank you, Mr. French, very much for the emphasis and the manner in which you succinctly summarized your statement.

I'd like to say that we usually offer a unanimous consent, that your prepared text would be placed in the record as you gave it to us, and then, of course, the proceedings will reflect your summary of your statement.

Mr. Weigand?

STATEMENT OF NESTOR R. WEIGAND, JR., PRESIDENT-ELECT, NATIONAL ASSOCIATION OF REALTORS

Mr. WEIGAND. Yes, Mr. Chairman. I'm Nestor Weigand, Jr. I'm a realtor from Wichita, KA and president-elect of the National Association of Realtors. And on behalf of our 772,000 members, we appreciate the opportunity of being in front of you and likewise, testifying with Dale, Tom and Tony.

Mr. Chairman, we're here to express our concerns over what appears to be a piecemeal approach to dismantling the Federal housing credit programs. Specifically, it appears that the administration is continuing its efforts to privatize these Federal programs and thus reduce the Federal Government's role in housing. Instead of doing this on a piecemeal basis, the National Association of Realtors feels that Congress should develop a formal national housing policy in order to provide a framework to address the nation's housing needs.

As part of the deficit reduction package, specifically, the President's fiscal 1986 and 1987 budget proposals include user fee provisions affecting FHA, VA, GNMA, FNMA, and FHLMC. In most instances, these user fees were not needed to aid the financial stability of these programs. And more importantly, these proposed fees were estimated to have a minimal effect on the national deficit.

These fees would likely either increase the cost to the homebuyer and/or discourage its usage.

The bottom line is that we see these fees to represent nothing more than a tax on the homebuying public and we're certainly opposed to them.

More recently, the fiscal 1988 budget proposal recommends user fee increases for only FHA and VA. But the effect remains the same, in our judgment. In the administration's attempt to reduce the deficit, we question whether the use of these fees would result

in revenue gains for the government. Instead, it appears more likely that these fees would reduce the use of FHA and VA as acknowledged by the administration when it recently requested a reduction from \$100 billion to \$70 billion.

In other words, the increased fees would likely net a loss to the government instead of a gain.

Now on another issue, in 1982, the Supreme Court declared testing is the law of the land. The National Association of Realtors fully supports this nation's fair housing laws. We also recognize the use of the enforcement tool of testing if the use of such tools is based on reasonable and objective standards.

And Mr. Chairman, herein lies the basis of our ongoing concern with the fair housing initiative program since it was first introduced. We became concerned that for the first time, direct Federal funds would be used to support testing of real estate practitioners without any safeguards or guidelines.

By way of background, in early 1986, at the request of House and Senate banking committee leaders, the National Association of Realtors began discussions with HUD in order to seek an agreement on a set of program standards or guidelines to accompany FHIP.

As a member of this particular negotiating team, I'm proud to say that after 6 weeks, we were able to work out a fair and balanced set of testing guidelines with HUD and these HUD guidelines were approved by our board of directors in May of 1986. These guidelines assure fair play on both sides. For example, that testors cannot seek economic gain from those they test and that the funds will be disbursed to only qualified testors and that they be spent on only authorized activities.

Secretary Sam Pierce agreed to go forward with the regulations based on these guidelines as a part of the testing program.

Though the National Association of Realtors' board of directors prefers that the guidelines be included in statutory language authorizing FHIP, our board just last month agreed to a FHIP program which simultaneously "sunsets" both the program and the guidelines. It is eminently fair, Mr. Chairman, that a program so controversial a nature be looked at by this committee in the light of experience.

The current Senate committee bill calls for a demonstration program which lasts until September 30, 1989, and then is subject to review, as are the guidelines which accompany it. This appears to us to be a solid step in the direction of fair enforcement procedures and represents a considerable concession by the National Association of Realtors.

We believe that the dual review of FHIP and the guidelines will prove useful to the congressional debate surrounding the guidelines. By allowing the FHIP Program and the guidelines to be an experiment, then you, the Congress, can determine whether or not the guidelines prove effective for responsible testing programs.

As real estate practitioners, our position on FHIP has always been premised on the belief that we should be afforded the same kinds of protections as other members of our society receive. The proposal we recommend would aid in producing the right answers in the interest of all concerned.

Mr. Chairman, that concludes my testimony. I am available for any questions you might have and we appreciate your consideration.

[The prepared statement of Mr. Weigand can be found in the appendix.]

Chairman GONZALEZ. Thank you, in turn, Mr. Weigand. That was very good. I think you emphasize those areas in which we have had great debate and have given us some very good light on those issues.

Mr. DeFilippo?

**STATEMENT OF ANTHONY J. DE FILIPPO, CHAIRMAN OF THE
BOARD OF DIRECTORS, RENTAL HOUSING ASSOCIATION**

Mr. DeFilippo. Thank you, Mr. Chairman.

My name is Anthony J. DeFilippo. I am privileged and honored to represent the Rental Housing Association as chairman of the board before the committee.

The Rental Housing Association is a new organization representing the mostly small-scale investors in HUD's rental rehab program and section 8 certificate and Voucher Program.

Rental rehab, or rehabilitation grants under section 17, is new, with many innovations. It seems like a good time to start giving the Congress our assessment of how it works.

First, I would like to state my personal bias.

I'm a former county administrator of various housing rehab programs in Allegheny County, Pennsylvania. I'm currently an owner-developer of housing which has been rehabilitated and occupied by section 8 tenants using the Rental Rehab Program. Leaving aside my personal subjective view, the hard data on the program indicates that it is proceeding exceedingly well. Our production has been excellent. Over 70,000 units are under construction or have been completed in 12,000 projects in the last 2 years.

Our rehabilitation costs average \$9600 per unit, with a subsidy of only \$3200. That subsidy of only \$3200 for each unit rehab is the most important factor of this program. Lower income tenants occupy 93 percent of the rehab units and very low income tenants, 75 percent.

Single, female-headed families make up a full 52 percent of the tenants residing in properties which have been rehabilitated under this program to date.

Clearly, the very needy are benefiting, as was intended by Congress, despite the very low cost. Seventy percent of the lower income tenants have section 8 certificates or vouchers. That reflects the primary purpose of the program, to increase the supply of decent units for certificate and voucher holders.

Many of the witnesses testifying before this subcommittee have noted the fact that certificates and vouchers alone do nothing to increase the supply of housing and that vouchers and certificates often cannot work because of a supply shortage.

Rental rehab is one clear and successful answer which works in almost all communities, both urban and rural. We recommend that you take a good look at what can be done by creative use of direct, tenant-based rent subsidies under any name—certificates, vouch-

ers, or whatever—when supported by shallow rehab subsidies like rental rehab grants.

A moment ago I said 70 percent of rental rehab's lower income tenants have certificats or vouchers. That means fully 30 percent have no rental assistance. Those are families who now have affordable, newly rehabed apartments with the only Federal subsidy being the one-time rental rehab expenditure averaging \$3200 a unit.

Rental rehab can be tough on investors such as ourselves because it places us at more risk than other HUD programs which have guaranteed an income stream in the past. We discuss that point more fully in our written statement. But despite the added challenge to investors and owners, we support an even increased emphasis on the rental rehab approach because we recognize that the more cost effective the program, the better argument for congressional support. And in the long run, that is very much more in our self interest than having more safe and profitable programs which are too costly to be sustained.

We also include in our written statement several recommendations for inclusion in your proposed housing bill which would be useful, but would not change the basic program design. Last year, Congress increased rental rehab funds to the highest level yet—\$200 million—despite an administration recommendation to terminate.

The administration has now returned to modest support of rental rehab, which at least indicated developing and welcomed bipartisan approval. \$200 million was exactly the right level last year for a new program needing time for development of local management capacity. We are pleased that the Senate housing subcommittee committee print being marked up today includes \$220 million for rental rehab. However, we feel the \$75 million in H.R. 4 is inadequate support for such a program that clearly serves its purpose in such a cost-effective manner.

We recommend a modest increase this year to \$250 million. That is still a miniscule sum in the entire housing budget, but it would produce 70,000 rehabbed units for 45,000 certificate and voucher holders and make newly rehabbed housing available to an additional 20,000 lower income families who can afford the rental rehab units without any subsidy other than the one-time rehab expenditure of about \$3200.

We feel that that would be an excellent benefit for the money and it would be money well spent.

Thank you, Mr. Chairman.

[The prepared statement of Mr. DeFilippo can be found in the appendix.]

Chairman GONZALEZ. Thank you, indeed, very much.

One general observation that I think must be made because three of you, or two of you, at least, made direct reference to it, was the abdication of a national commitment to housing for all Americans; that is, including the moderate income and the poor. Which, as you know, has been a very special category of programs since the late 1930s.

But it wasn't a frontal, straightforward abdication or confrontation on the part of the administration. It was sort of by indirection.

I think this was the subcommittee that first, at the very outset of this administration, in February 1981 had the first hearing at which the then-director of the Office of Budget and Management, Mr. Stockman, appeared before the committee. It was, as I understand, his first and only appearance before a nonbudgetary committee.

I don't think that, as much as he was considered to be a wizard of finances, that he understood housing finance. And I think the record now, in retrospect, when read, clearly reveals this fatal flaw, because the thrust of his testimony was that the administration was of the opinion that there was an inordinate or undue amount of credit allocation to the housing sector.

One thing that caught my attention was the vehemence with which he ascribed the misallocation as being used or devoted in the past to the speculative and to the excessive, costly entrepreneur—the builders and the mortgage lenders.

All that was in his testimony.

And since the general impression was then that these segments of our society had been very supportive of the administration, I couldn't understand why nobody rose to challenge that statement. But I did. I asked him if he felt that the recommendations presented, and those were the so-called black book suggestions that had been leaked in the prior December as to what would be included in the President's budget request which had just been unveiled that week, February 8. And it was also the week in which the Secretary of HUD was confirmed by the Senate.

So when I asked if the opinion was that their presentation was the minimum that they were asking for, he said, absolutely. He said, we have to bring about the realization of the President's economic recovery plan. And that means that we've got to look at this from a strictly budgetary standpoint.

I then asked him if his recommendation before us was really serious with respect to FHA financing, where, obviously, his computer had targeted the \$31 billion figure that was then the case?

And he answered affirmatively. And it made me think that he didn't realize the peculiarity of housing finance, where the \$31 billion, of course, was a 30-year stretch-out and that he was targeting the computer at this big, big figure. And I said, well, if you'll pardon me, if we were to go on ahead and adopt the recommendation, it would seem that by July 1, every single FHA field office would have a telegram saying that they couldn't commit \$1's worth of mortgage insurance.

He seemed to be puzzled by that. One of his aides got hold of him and he never really did answer. He also was suggesting, and the President did in his message, that we eliminate UDAG. That was the scene. We figured that 80 percent of the thrust of the diminished budgetary request were in that area, that this subcommittee had jurisdiction. But I think that the Congress got kind of sucked in by the fact that it was premised on a needed budgetary financial standpoint and nobody ever questioned the conclusion, which was rather dogmatic, that the Nation had been on a housing credit allocation binge, that there had been just too much allocation of credit. Nobody really ever challenged that.

But I was concerned. And so I took it up with the leaders of the House; that is, the majority leaders. They didn't seem to understand the magnitude of the challenge. To me it boiled down to, are we going to undo, purely on a budgetary basis and argument, programs that took years of debate and consideration for the Congress to enact? And then some, such as FHA, that had a tremendous track record of accomplishment, the miracle of any nation in the 20th century was the housing of America through these mechanisms. There's no other country that can point to that accomplishment in a 40-year period.

So I asked that the President be confronted with a demand that he tell us what alternatives he would have for these programs that had worked, and that if they were going to argue that they weren't working, should we not have hearings and oversight and otherwise to figure out which of the programs were meritorious, and which weren't.

But it never has been confronted because the Congress then got into the question of the balanced budget, a freeze was the cry just 2 years ago, and not whether or not there were these burgeoning needs.

In the meanwhile, though, I think that the organizations here represented today did recognize. But even at that, the basic question still remains the same because this is the only reason I can account for the still recommended user's fees or the taxes, as I call them, because I don't see that they have any other purpose than to try to enhance the revenues of the government, which is the definition of a tax, whether you call it a fee or a tax, or whatever, that's what it amounts to.

And just as happened in every other case, it ended up in being counter-productive. First, it far from resolved the budgetary question, but in the meanwhile, created stress throughout the land. We didn't have a problem with homelessness at the time of the so-called increased costly allocations of credit to housing.

So obviously, something was working.

We've heard testimony now, to try to dovetail with what we confront at this time, from the State level, yesterday and today from the municipal, local governmental level, and they're success stories.

And these success stories, though they're moderate and all, really show the resiliency among the people in America. We've seen everything from the rural housing section 523 and 525, where, again, have succeeded with a very modicum of subsidy for technical assistance.

We have seen in California young couples build their own homes with the help of private enterprise. The subsidy went to pay for the skilled teachers, the carpenters, the bricklayers, and the like.

In the case of New York, where we have the Nehemiah Program we had the same thing. You had a budget cut-off of the Federal programs on, say, public housing for the poor. Then you had the State, and the city come in with a very substantial diversion of their own funds for housing assistance. You also had church groups providing up to \$10 million of capital for the land that was donated by the city. But still, it took a private retired builder to come in

and show how it could be done with some of the unemployed living in those areas.

So, you know, I sensed that when Mr. Stockman was saying, look, nothing has worked and all you've done is given the money that was meant to build housing for the moderate income and the poor families, instead went to the pockets of the builders and the mortgage bankers.

Well, as radical as I've been called, I never went that far because I was conversant with what happened back home.

We have a sort of cyclical return to what I remember as a Depression era kid, when I remember homelessness as we see it now.

So I wanted to say that, actually, that is our biggest overall continuing challenge; and that is, to bring into focus very much what Mr. Stuard and Mr. French said, that we need a recommitment to a national commitment to provide shelter.

And, of course, I believe that nothing succeeds like success. Private enterprise, if you please, did it. I don't see why it can't be done today. I think the resources, the know-how—it's just a question of not forsaking the goal, in my opinion. And I'm delighted to hear that you are committed to bringing about, together with all of us, a recommitment on the national level.

No country in the world in the 20th century has even begun any attempt to house its citizens without a national commitment on the part of the national entity.

I'm going to ask Mr. Wortley here to forgive me, but I have two questions specifically. The first one, I guess it could be pertinent to all the members of the panel. I believe you are aware, and I believe some of you referred to it—the administration's budget contains a proposal that would no longer permit the financing of closing costs on FHA loans, and to increase the downpayment requirement.

I think you stated it generally, but I want it for the record, the history of your reaction to this administration proposal and how far you think it will get, particularly in the other body where you've had contacts with the corresponding members to us over there.

I consider that budgetary request one of the residue things that have been bothering us quite a bit for sometime. And I wonder if you had had a chance to analyze the net impact.

I know that when we were talking about the recent attempt to raise fees, that our analysis showed that what had been pawned off as something that would be very minimal, that it was very substantial that in areas such as mine where we have a relatively depressed market, real estate values, for instance, have dropped over 40 percent in less than 1 year.

But, then, compared to, say, other places, such as California, where you have a higher average, we figure that that fee would amount to an increase in your mortgage transaction for the home-buyer of anywhere from \$600 to \$1200. But it was very hard to sell.

Now what is your thinking on this, especially since we no longer react in spasms to the charge that, well, this is a big spending thing and we have to cut no matter what happens.

I think we're reaching a point where we're emerging from that. So we do have a chance to kind of consider these things on their merits. But it's taken sort of an emergency. You know, it's taken

families out on the streets sleeping in the cold, which is shocking to all Americans. We just don't look upon ourselves as indulging in that.

So, do you feel that this administration's proposal is something that we should get together on to fight head on?

Yes, Mr. French?

Mr. FRENCH. I would like to comment, sir, that we agree with you very much. In fact, our figures reflect that on a sales price of about \$65,000, we estimate homebuyers will have to bring an additional \$1200 cash to the closing table.

And as you know, sir, the FHA loan, in particular, in areas that are hard hit economically, the low downpayment is a critical element to closing. And to suggest that those borrowers can come up with an additional \$1200, simply reflects a lack of understanding of the concept.

I think the Mortgage Bankers Association figures would reflect that the delinquencies don't necessarily track the fact that a borrower had a 3 percent down payment, or 4 or 5. Proper underwriting, as I've often said in my talks, my first home was a GI home at \$7200 in Forth Worth, TX. And I only paid zero down. But I respectfully suggest that I paid the payments when they were due.

If we hadn't had it, we wouldn't have had a home to live in.

Chairman GONZALEZ. That's right.

Mr. FRENCH. I would just like to take one other comment.

Chairman GONZALEZ. Sure.

Mr. FRENCH. And I know that Nestor and the others would like to comment on this, too.

I think your appreciation of the forum that's developing—Mr. Stockman began this program and it seemed to be only budget-oriented, with no one within the administration really understanding what they wrought. And all of us who sat here, we were on the line and it quickly became evident to us when there weren't enough employees in FHA and there weren't enough employees in the VA, and we'd known very early that these programs were mistaken and not in the interest of the country.

And I think your concept of a national housing policy is the way to bring about a confrontation with the administration. Let's get it out in the open. Let's have positive rather than negative proposals.

And I think we can win because I think the people are with us.

Chairman GONZALEZ. Thank you very much. Mr. Stuard?

Mr. STUARD. Mr. Chairman, this is a very important problem because it seems to fly right in the face of what FHA was originally designed to service; and that's the moderate and the low income side of the market.

Because I build in California, I am no longer able to build under the FHA cap. However, my son does. We're a building family. And being a good father, I went out to see his tract in the high desert in California 2 or 3 weeks ago and had a chance to talk to some of his buyers when I was out there.

Very clearly, these are good people who are stretching to get their first chance of a piece of America. And to be unable to finance these closing costs at the beginning of that purchase would make it extremely difficult for these people to purchase that first house. I would like to see Congress "step to the bar" on this issue.

Our industry strongly supports that this type of issue does not prevail.

Chairman GONZALEZ. Thank you very much. Yes, sir, Mr. Weigand?

Mr. WEIGAND. Yes, sir, Mr. Chairman. We likewise perceive that these kinds of things that add costs to the consumer and add costs to the buying public, we are opposed to them and certainly, as you said, it's somewhat analogous to attacks on the home-buying public.

But in addition to that, there seems to be some confusion in the fact that the FHA program made \$500 million last year and they've got \$4.3 billion in their mortgage insurance reserve, which is invested in Treasury bills and this helps reduce the Federal budget deficit. It certainly does not add to them. But there certainly appears in this city to be some confusion in that area.

Chairman GONZALEZ. Thank you very much. You're right. I never could figure out how it was looked upon as something that was wasting the substance of the land or depleting its credit, but rather, adding to it, as all the history of it showed.

I have a couple more questions, but I think at this point I have exceeded our usual limitation and I want to recognize Mr. Wortley for an opportunity for him to make a statement or ask questions.

Mr. WORTLEY. Thank you very much, Mr. Chairman.

Mr. Stuard, as you're well aware, HUD's task force into fraud and abuse found that the insured investor loans posed a greater actuarial risk than mortgages to owner-occupants. And I realize that the industry has a few concerns over the investor prohibition—Mr. Wylie, our ranking member on this subcommittee, is a sponsor of an amendment.

Now the bottom line is to maintain the integrity of the FHA insurance fund and not to provide an excuse for those who would like to abolish the program. Although the investor prohibition is in the current bill that we're discussing, H.R. 4, I'm sure that Mr. Wylie and others of us on this subcommittee would like to come up with a balanced compromise taking into consideration the actuarial risk to the FHA fund, as well as to assure that unnecessary restrictions are not placed upon the legitimate mortgage credit needs of investor participants.

What, specifically, are your concerns and how would you like to see us address this problem? You may have said this in your testimony, but I, unfortunately, missed the direct testimony of all four witnesses.

Mr. STUARD. Thank you, Congressman. Let me say to begin with that we don't believe that the investor loan is a problem to the insurance fund. Yes, there was an abrogation, we think primarily due to some of the difficult economic situation in certain portions of the United States. However, we think that reasonable compromises can prevail and that mechanisms can be looked at that would take care of that problem and protect the integrity of the fund.

We don't believe that you ought to throw the baby out with the bathwater.

Mr. WORTLEY. No, we don't want to throw the baby out.

Mr. STUARD. Right.

Mr. WORTLEY. But have you got some specific suggestions in there? That task force of HUD's did point out some flagrant abuse. What would appear to be flagrant abuse?

Mr. STUARD. We would recommend that the underwriting standards be tightened. We would recommend that we ought to possibly look at a lower loan-to-value ratio in order to be able to improve the equity position to protect the value of the loan that way.

These are the types of things that I think would go a long way to getting what needs to be done to the program.

Mr. WORTLEY. Well, we certainly want to keep the FHA. We'll try to cooperate with you and see what we can come up with.

Mr. STUARD. Thank you. We appreciate it.

Mr. WORTLEY. Mr. Weigand, do I understand correctly that you are more or less agreeable now with the Senate language on the FHIP program?

Mr. WEIGAND. Yes, Congressman Wortley, that's correct.

Mr. WORTLEY. I'd like to see us break that impasse that we had previously. I haven't followed the Senate bill all that close, but I wonder if you might—

Mr. WEIGAND. I think they're in session right at this time.

Mr. WORTLEY. Yes, I know they are right now.

Mr. WEIGAND. Right. I think they're going over that exact thing.

Mr. WORTLEY. That's what they're working on today?

Mr. WEIGAND. Yes, that's correct.

Mr. WORTLEY. Well, what are you doing with the rest of that team sitting behind you and not over there?

Mr. WEIGAND. Some of them are over there right now. [Laughter.]

Mr. WORTLEY. OK. The A team is over there?

Mr. WEIGAND. Right. I'm the C team. [Laughter.]

Mr. WORTLEY. What is your understanding? What are they working out over there?

Mr. WEIGAND. Well, it appears that the guidelines will be referenced in the Senate bill and we perceive this as an important fact as far as a FHIP Program.

Mr. WORTLEY. Well, we sure would like to cooperate. We want to come up with a good housing bill this year, one that we can all live with, something that's good for industry, good for the consumer, good for America.

Mr. WEIGAND. Right. And quite frankly, we unequivocally are opposed to discrimination and have always been opposed to it. We're not trying to figure out a way around that because if its happening, those people should be prosecuted.

Mr. WORTLEY. Absolutely.

Mr. WEIGAND. And we're part of that system. But we also feel that it's very necessary to have a set of standards by which to measure how this is done.

Mr. WORTLEY. Well, we'll work towards achieving that goal.

Mr. Chairman, I yield back the balance of my time. I have another committee hearing that I'm due at.

Chairman GONZALEZ. Well, I'm deeply grateful to you, Mr. Wortley, as you know.

Mr. WORTLEY. Thank you.

Chairman GONZALEZ. And we thank you very much for your very valued help and presence. You've been there when they've called the roll, so that's all we can ask.

Mr. WORTLEY. When they call the roll in heaven, I'd like to be there, too. [Laughter.]

Chairman GONZALEZ. One other question which I think is very important that we discuss because, as you have recognized here, there are very powerful segments in the administration that are still zealously determined to do in such beleaguered entities as FHLMC.

My understanding is that the Federal Home Loan Bank Board was recently sent a letter to Leland Brensell, who is the acting president of FHLMC, which proposes a \$75 billion cap on the volume of business that corporations could do during the current calendar year.

So what is your feeling about this continued administration effort to curtail the operations of FHLMC?

Yes, Mr. Stuard?

Mr. STUARD. Well, Mr. Chairman, it seems to us that the role ought to be to try to provide the largest supply of mortgage capital at the lowest possible cost. These programs have done an excellent job. They are successful programs. They are economic programs. And to tamper with them and damage them in any way would be a great disservice to the American public.

Chairman GONZALEZ. Thank you. Mr. French?

Mr. FRENCH. We're obviously very much opposed to this limitation and, again, for the reason that it is part of the pattern, that it would appear to us that the administration ought to recognize that this point is a bankrupt idea; that is, the destruction of the housing credit systems of our country.

To place an arbitrary limit on FHLMC, on the amount of loans they can insure or can buy, is simply re-establishing some of the chaos that we faced last year with the dissembling of the programs.

I cannot imagine why they feel that this is justified. FHLMC is doing a good job. To create an aura of doubt as to whether or not they are going to run out of authority simply means that more lenders and more families will not have this source of credit and it will become doubtful and disruptive.

It lacks, in our judgment, anything but a further action to make the national credit system less usable, less available, and less helpful to the homebuyer. And for these reasons, and many more, we will strenuously oppose it.

Chairman GONZALEZ. Thank you very much. Mr. Weigand?

Mr. WEIGAND. Yes, Mr. Chairman. I guess if one wants to dismantle the housing program of this country, probably the most effective way is to do it piecemeal and do it one leg and arm at a time and then we'll wake up and there will be no secondary market in this particular case, or in the case of FHA, no FHA market.

So, yes, we are opposed to the reduction of that credit authority.

Chairman GONZALEZ. It's been very troubling and I just don't understand the sustained, continuing course of action along this line. I think the Office of Budget and Management is determined to

limit the FHLMC, and I think that's the main primary reason behind all of this.

But, still and all, you know, who can reach the administration?

It was very troubling. I've been privileged to serve with six different presidential administrations since I've been here.

Lyndon Johnson, I think, and I'm not saying this just because he was a fellow Texan or because I admired him and I was grateful for his leadership. But there's no question that he was probably the most efficient administrator. There was no disarray among his various Cabinet members. You weren't about to have one Cabinet member saying this and another one saying that, and then the President something else. Heads would get knocked together.

You certainly didn't have anybody operating out of the Oval Office on a matter vital to either one of the departments without the department secretary knowing.

The Carter administration was for a very long time very enigmatic to me. I couldn't figure out the processes of judgment making decisions. But when it came to domestic programs, though, it was very viable. I thought he had some of the best HUD secretaries we've had. Moon Landrow of New Orleans, he was here not too long, I thought did an outstanding job. But he came with a background of experience and he had been a witness before the committee for many years because I've been on this subcommittee since I came here some 26 years ago.

The first person to meet Secretary Pierce the day he was confirmed was myself. He had been an assistant to the Secretary of the Treasury then, our fellow Texan, John Connally.

I met him then and he was very, I thought, impressive. But when I asked him that day in February how he would, as secretary, uphold the policies and the programs of long-standing in view of the obvious budgetary constraints and would he be in a position to reach the President on a par with David Stockman?

He evaded the question by stating that we are all committed to bringing about the realization of the President's economic recovery plan. And then it was a few months later that it was obvious that he stood no chance. Stockman was actually the de facto Secretary of HUD, as well as several other departments.

However, we in the Congress have a responsibility, and this is what we're trying to fulfill.

There has come before us the recommendation of a national housing trust. I don't know if any of you gentlemen are aware of the specifics of some of the suggestions. We've had two suggestions I know of that are labelled that way generally. There may be a small difference in the mechanisms that they're suggesting, but the main idea is to really have a definite, an intra, sort of, allocation of credit for housing.

I think it was yesterday that Governor Dukakis didn't refer to it as a trust, but, in effect, was recommending a Federal level endeavor of that nature.

I was trying to remember if it was the National League of Cities, but one of those entities did come out with a national housing trust idea.

I was just wondering, and I know that at this point you may not have any concise information, but I'm wondering if you could take

it under advisement and if you could have any opinion or information by the time you get the transcript of the proceedings, give me your ideas and recommendations, if it could be a viable tool to help those of you in this industry.

I was going to ask—yes, Mr. French?

Mr. FRENCH. Mr. Chairman, I would like to comment that we will certainly study it. And the three of us who represent the three very large national associations for, in effect, housing, I would just like to say, sir, that we, all three, are in intensive research right now in the whole area of national housing policy. We will, and hopefully, if invited, will have an opportunity to provide input, as you provide the leadership and support.

Chairman GONZALEZ. Oh, certainly. We're open and amenable. In fact, we'll be glad to call a session of the subcommittee to hear any proposals or any additions to the testimony presented today.

Mr. FRENCH. It would be our hope that the credit for housing—as you know, the statistics show that the amount of credit, and on a national basis that's going to housing, is actually decreasing.

Chairman GONZALEZ. Oh, yes.

Mr. FRENCH. And home ownership is decreasing.

Chairman GONZALEZ. Very much.

Mr. FRENCH. We look with great concern at any proposals that suggest that housing credit should be rationed on some trust basis. I have not seen this proposal, but it would be our hope that the national housing policy would re-establish the priority of housing rather than allowing someone to impose a financial handcuff on housing in advance before it can be fully restored.

Chairman GONZALEZ. Yes, sir.

Mr. FRENCH. I think the Chairman may be aware that the VA, that the programs of the OMB and this administration already have the VA programs in a total shambles nationwide.

Chairman GONZALEZ. Yes, I'm very well aware of that.

Mr. FRENCH. And it's going to have to be more than negative restrictions from outside.

Chairman GONZALEZ. Yes, sir.

Mr. FRENCH. We're going to have to build again.

Chairman GONZALEZ. I thoroughly agree with you. And that's why I thought—

Mr. FRENCH. I apologize if I'm a little vehement about this. [Laughter.]

Chairman GONZALEZ. Well, no, sir.

Mr. FRENCH. We're a bit cranked up.

Chairman GONZALEZ. You don't owe any apologies at all. In fact, I'm delighted and welcome the vehemence.

My son—that is, the youngest—is in his early 1930s. He's now an attorney. He married a young lady from Norway. They have one daughter and another child on the way. He's been working as an attorney for the attorney general of Texas in the child support division. They had been renting. They had been lucky. They had found this rather very, very ancient little house, but adequate, at a rental that was better than average at the time.

In the meanwhile, they were interested in bettering. With the shrinkage in the market, they saw this real nice home. It's about 60 years old. The owner had originally put it out at \$115,000. By 2

months ago, he had gone down to about \$80,000. So they finally got a kind of a working agreement.

I was delighted to see that they were able to find a graduated mortgage arrangement.

The only thing was that of course this was existing housing. But I was just wondering, I believe the average home in my district in Texas, could cost today around \$80,000-\$85,000 in the San Antonio area.

I'm wondering what it is now in the Fort Worth-Dallas area.

Mr. FRENCH. I grew up there, sir, but I'm not sure I know the answer. My compatriot here from the home builders probably knows better than I do.

Chairman GONZALEZ. He probably will. You know, Fort Worth has presented us with former presidents of the home builders and now you. So something must be going on in Fort Worth that's very favorable to housing.

Mr. FRENCH. A lot of country living, I'm afraid, sir. [Laughter.]

Chairman GONZALEZ. I know. I don't know if you have any facts or figures—

Mr. STUARD. I don't have any hard data on it, Mr. Chairman, but I would suspect that from what I've been able to gather out of the builders in the area, that the Fort Worth-Dallas area is somewhat stronger.

Chairman GONZALEZ. Stronger?

Mr. STUARD. It's somewhat stronger. And I would suspect that the average price would be slightly above, but not a lot. All of Texas is, as you're well aware, in severe problems, particularly the Houston area.

Chairman GONZALEZ. Yes, they're depressed.

Mr. STUARD. Oklahoma, Louisiana, Arkansas, all of those areas are seeing heavily depressed market conditions.

Chairman GONZALEZ. I was going to ask Mr. DeFilippo, you said you had been a county-level administrator.

Mr. DEFILIPPO. That's correct.

Chairman GONZALEZ. How much experience did you have with your Section 312 Program?

Mr. DEFILIPPO. The Section 312 Program for the last 12 years—I have a lot of experience.

Chairman GONZALEZ. How do you compare that with your moderate rehab and similar ongoing existing programs that have been put together here?

Mr. DEFILIPPO. Well, the primary emphasis of the 312 Program was, for our purposes, owner-occupied dwellings. There were a few years where we did do some investment properties and they worked very well.

Chairman GONZALEZ. Excuse me. I wonder if you could turn on your mike.

Mr. DEFILIPPO. Okay. Thank you. As I said, I worked with the program for many years, primarily for single-family, owner-occupied projects. There were a few years where we did do rental properties.

The program worked well when the interest rates were 3 percent, 20-year fixed rates. When the rates went up to 11 and 12 percent, as everyone else's, then it wasn't a very effective program, be-

cause it was targeted to very distressed neighborhoods and the affordable rents just wouldn't carry the loans any longer. So they were no longer able to—the program just did not function very well in the last few years.

Now rates are back down. It's a program that works, but there's no rent subsidy tied to the tenants using the 312 Program.

So we do have experience with that program. Compared to the section 8 moderate rehab, as an investor-owner, I would much rather have a section 8 guaranteed 15-year rental contract. I'm sure it would be easier to buy a property off of my realtor and have it financed through my mortgage banker over here if I had a guaranteed 15-year loan.

Chairman GONZALEZ. I understand. Certainly. Well, there was another point that I would like very much to discuss with you if you have the time.

We had a hearing late last year on what I consider to be the next contributor to homelessness, and that is the expiring contracts on section 221(d)(3)s and 236 projects. We estimate that there are somewhere around 3 million low and moderate income renter families that would be affected in the country. Some mortgage terms matured late last year, and many others will mature this year, because we're entering the 24-year period. Most of these 221(d)(3) programs were sort of ongoing when I came aboard here to the Congress.

I'm wondering if you have had any occasion to consider this? We can from the congressional level try to stimulate the extension of the low and moderate rental provisions on these mortgages. But naturally, we can't try to control a market and an investor who has to deal in very practical money matters.

But I don't know if either one of you gentlemen has been aware or has given consideration to what I consider to be a mounting problem. We have similar provisions in the case of rural housing. In California, we've had some horror stories here and some of those witnesses, and one of the members of the committee from that area brought to our attention.

What it means is that you will have more people thrown into the homeless population. If you could, at your convenience, have any testimony or input, we would welcome it very much because you're there and you're representing the area of business, and it would be very helpful to us.

We're going to continue to have hearings, but in the meanwhile, the idea is what should and what could the Congress be doing about this?

Well, gentlemen, unless you have some additional statements or some questions, I want to thank you very much once again for your time, travelling a good distance, and your help. Your statements are most valuable. They will be given to each member of this subcommittee.

I want to explain to you that given the rhythm of things, at this point, on a Thursday where no legislative business has been scheduled, and no session for tomorrow, many of the members take the opportunity to go back to their districts by this time. I was hopeful that the three I had cornered would have kept their pledges, but I should have known better. [Laughter.]

Anyway, thank you very much, gentlemen.

Mr. STUARD. Thank you, Mr. Chairman.

Chairman GONZALEZ. Have a safe trip back home.

The subcommittee stands adjourned until 9:30 a.m., March 19.

[Whereupon, at 3:30 p.m., the subcommittee was recessed, to reconvene on Thursday, March 19, at 9:30 a.m.].

APPENDIX



UNITED STATES CONFERENCE OF MAYORS

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STATEMENT BY

JERRY ABRAMSON
MAYOR OF LOUISVILLE

ON BEHALF OF THE
UNITED STATES CONFERENCE OF MAYORS

BEFORE THE
SUBCOMMITTEE ON HOUSING
AND COMMUNITY DEVELOPMENT
U.S. HOUSE OF REPRESENTATIVES

MARCH 12, 1987

**PRESENTATION TO THE U.S. HOUSE SUBCOMMITTEE
ON HOUSING AND COMMUNITY DEVELOPMENT**

By **Jerry E. Abramson**

Mayor of Louisville

and

**Co-Chair, U.S. Conference of Mayors Task Force on the
Reauthorization of the Community Development Block Grant Program**

Mr. Chairman, members of the sub-committee: Thank you for the opportunity to testify this morning. My name is Jerry Abramson. I am Mayor of Louisville, Kentucky and I am testifying today on behalf of my city and the U.S. Conference of Mayors, for which I am co-chair, along with William J. Althaus, Mayor of York, Pennsylvania, of a newly created Task Force on Reauthorization of the Community Development Block Grant program.

The U.S. Conference of Mayors strongly supports this subcommittee's bill, H.R. 4, because it will begin to address our nation's urgent need for a national housing policy. We anticipate with great excitement the passage by Congress of this nation's first omnibus housing bill in six years.

The broad outlines of this housing and community development bill are consistent with the policy of the U.S. Conference of Mayors. As recently as January 22, during our annual Mid-Winter Meeting, we re-affirmed this policy.

Specifically, the Conference of Mayors strongly supports the continuance of the following programs: Community Development Block Grants, Urban Development Action Grants, Assisted Housing Programs, Section 312 Loans, Housing Development Action Grants and Rental Rehabilitation Grants.

Furthermore, we urge you and your House colleagues to persevere in your efforts to retain the spending provisions contained in H.R. 4. The Senate bill dealing with these programs includes spending provisions that are significantly lower than the House Bill:

Assisted Housing	- H.R. 4 - \$11.9 billion
	SB - \$7.5 billion
CDBG	- H.R. 4 - \$3.4 billion
	SB - \$3.0 billion
UDAG	- H.R. 4 - \$300 million
	SB - \$225 million

We at the Conference of Mayors are cognizant of the spending limitations placed on the federal budget by Gramm-Rudman.

We are also aware that the House Budget Committee is looking for ways to cut programs that benefit this nation's urban infrastructure. The Community Development Block Grant program would seem to be a likely target in such circumstances.

But I urge the members of this subcommittee to fight hard for H.R. 4, and I implore each of you to seek support for this bill from all of your colleagues in the House and Senate. Nothing less than the future of our nation's cities is at stake.

That last statement may sound hyperbolic, but one need only look at the record to see that it is not. An examination of the effects of federal policy of the last several years on the nation's urban infrastructure shows that this policy is shortsighted and must be amended.

Since 1978 federal financial aid to cities and programs that directly serve urban populations has been cut by approximately 68%. Details of these budget cuts and how they have affected cities are included in the U.S. Conference of Mayors annual report, The Federal Budget and the Cities, which I submit for the record.

Some of those budget cuts were appropriate, and cities have adjusted to them. For example, the replacement of the CETA program with the Job Training and Partnership Act (JTPA) forced cities to begin using the reduced federal job-training funds for the specific purpose intended - job training - instead of using the funds to create additional government clerical jobs, which was often the case under the CETA program.

Other federal budget cuts, especially last year's decision by the Reagan Administration and the Congress to eliminate the General Revenue Sharing program, were not appropriate and have had a profound fiscal impact on cities all across the country. Some local governments are shutting off street lights, cutting back on police and fire protection, and cutting other essential services as a result of the loss of revenue sharing.

Still other federal budget cuts, while not always having an immediate effect on city government budgets, have resulted in increased demands on city budgets from local agencies.

The most obvious example of this is the federal cut in public housing funds and other housing programs.

Our nation's public housing stock is in an advanced state of deterioration. Maintenance programs, so badly needed to halt the

decay, have been subjected to sharp budget cuts. Many public housing apartment buildings are in such an advanced state of decay that they are beyond renovation and require demolition. As a result, the number of public housing units available for low-income housing is decreasing significantly.

At the same time the federal government has lessened its commitment to public housing, the availability of private low-income housing also has declined.

Over the last decade, the number of rental households earning under \$10,000 annually increased by three million. During the same period the number of rental units affordable to these low-income households declined by two million.

The 1986 Tax Reform Act also is now contributing to the nation's shortage of low-income housing. Regardless of the appropriateness of the tax shelters involve, there's no question that tax reform has eliminated or greatly curtailed most federal tax incentives for the private investment in low-income housing development.

And much of the existing privately owned, federally assisted housing will be at risk over the next decade as long-term contracts for federal subsidies begin to expire, with the owners likely to opt out of low-income occupancy requirements.

Other federal budget cuts, in such programs as Aid to Families with Dependent Children, have contributed significantly to the problem by reducing the income available for housing.

Because of these actions, there are waiting lists to get into public housing in cities all across the United States. In Louisville we have more than three thousand families waiting to get into public housing. In other cities the waiting list has as many as 10,000 families.

With no hope of securing affordable housing, the people on the waiting lists turn to their city governments for assistance. Or they simply give up and join the growing ranks of the homeless, another problem that is placing additional financial strain on local government budgets.

The result of all these federal budget cuts is that cities are faced with greater demands for services with fewer funds to provide those services. And local tax increases aren't necessarily the answer because many states, including Kentucky, have enacted referenda provisions on tax increases which, in effect, make such increases impossible.

This discussion is an important part of my testimony in support of H.R. 4 because the Congress should not, and must not, make budget decisions in a vacuum. The Congress should make its decisions in light of previous federal action that has placed cities under tremendous financial strain.

Another program addressed in H.R. 4 that has been affected by federal budget cuts is the Urban Development Action Grant program. If ever there was a program that fits the phrase "public - private partnership," the UDAG program is it.

UDAGs have been a critical element in urban development since the program's inception, with more than 2,400 projects funded in over 1,000 cities. These projects involve the public and private investment of more than \$26 billion, while creating or maintaining nearly 500,000 permanent jobs.

In Louisville three vital development projects were possible only because of the UDAG program - the Galleria shopping and office complex, the Broadway Project (phase 1) and Station House Square apartments.

The Urban Development Action Grant program is an essential part of urban development and it should be funded at the \$300 million level included in H.R. 4.

The Community Development Block Grant program is perhaps one of the least appreciated and most misunderstood of all urban programs among members of the Congress. I would like to take a few minutes to explain in some detail just how important this program is to urban areas.

The Community Development Block Grant program has been one of the most successful programs in the revitalization of our nation's cities. It is a program that exemplifies the federal-urban partnership that has served our cities, and our nation, extremely well for many years.

The Community Development Block Grant program should be reauthorized by the Congress at the level of funding provided for this bill - \$3.4 billion. And the Congress should reauthorize the CDBG program under the existing objectives, which include the provisions that 51% of the funds should benefit low and moderate income families; the funds should be used to eliminate slum and blight; and, the funds can be used in emergencies.

I have a specific reason for asking that the CDBG program be reauthorized with these objectives, because they address one of the greatest misconceptions about the Community Development Block Grant program, a misconception that is causing some in the Administration and the Congress to consider eliminating the flexibility cities now have in spending CDBG funds. This misconception is that cities do not use CDBG funds to provide for human needs.

I could address this issue by citing hundreds of examples of how cities do appropriate CDBG funds to provide human needs services to low and moderate income people.

Instead, let us take a look at how the reauthorization of CDBG funds fits in with our basic national urban agenda. I submit to you that this country's urban agenda includes four basic precepts: 1) job creation; 2) helping people help themselves to remain independent; 3) improving the urban housing stock; and, 4) providing a "safety net" for those most in need.

Some specific examples can demonstrate how CDBG-funded programs address these basic precepts of the urban agenda.

Job Creation - two important aspects of job creation are job training and providing citizens with the flexibility to get out of the house and work.

- ° One Louisville program receiving CDBG funds is the Home Builders Institute, a job training and placement program. Jobless individuals are trained in basic construction skills by rehabilitating dilapidated houses. CDBG funds provide construction materials and pay a portion of the supervisor's salary. This relatively new program has rehabbed houses and trained and placed 90 workers in permanent, full time jobs.

- ° CDBG funds also are used in Louisville to subsidize day care for children of working, low income, single-parent families. 164 children are able to attend qualified day care programs because of this subsidy. Without it many of the single parents would have to quit work and accept welfare because they could not afford day care costs on their low incomes. It would cost far more to pay welfare than day care for these families.

Helping People Help Themselves To Remain Independent - One could call this the "pay me now or pay me later" precept of the urban agenda. There are countless examples of this type of CDBG-funded program in every city. Two in Louisville include:

- ° Project Warm, which provides free basic weatherization services to low-income elderly and disabled home-owners and renters. Each year Project Warm serves about 600 clients, people who, without this free weather-stripping and insulation, would likely lose their utility service due to unpaid bills and, perhaps, even their very homes.

- ° The Emergency Repair Program is just what its name implies. Everything from new roofs to furnace repairs to plumbing repairs are provided to low-income elderly and disabled homeowners. Without such repairs, many of the homes would become uninhabitable and many recipients of this service would likely join the ranks of the homeless.

Another example of such a program is in Birmingham, Alabama:

- ° In Birmingham, CDBG funds permitted the Alabama Goodwill Industries to move into a larger, fully accessible building. The relocation allowed the Goodwill Industries to expand its services so that now the agency serves 1,722 handicapped and disabled men and women from the Birmingham area through work evaluation, work adjustment training, on-the-job training, sheltered employment and job placement assistance.

Improving The Urban Housing Stock - There is no more essential human need than providing adequate shelter. Again, there are limitless examples of how cities use CDBG funds to address this third precept of the urban agenda. Let me cite a few that involve major housing developments for moderate and low income families.

- ° In Cleveland, Ohio CDBG funds were used to build the first-market rate rental housing with a low & moderate income component (183 townhouse and garden apartments) in an area called Hough, one of the city's most deteriorated neighborhoods. The Hough, which lost 65% of its population and 49% of its housing between 1960 and 1980, now has affordable housing for its low and moderate income residents.

- ° Louisville has a similar development that involved CDBG funds. The Phoenix Hill neighborhood was a pocket of blight and poverty just east of the downtown area. The development of 240 market-rate garden apartments was the first significant investment in Phoenix Hill in decades. The project is a great success, with a mix of moderate and low income individuals and families now living there.

- ° Another major housing initiative in Louisville made possible by the use of CDBG funds is the Algonquin Neighborhood Project, which involves a partnership of the City, a state housing agency, mortgage companies and private investors. 87 dilapidated, uninhabitable single-family homes will be renovated and sold to low and moderate income families. Those with incomes as low as \$12,000 will be able to purchase these homes, with mortgage payments being an average of twenty dollars a month less than the current rental rates for similar houses in the same neighborhood.

Each of these housing developments includes a mix of moderate and low income housing. In some of the proposals now being discussed regarding the future of the CDBG program, these projects would not be eligible. At least one proposal would restrict CDBG funds for only the lowest income people. That

would result, in my judgement, in cities creating new pockets of low income housing with perhaps the same result as today's public housing projects. The mix of moderate and low income housing has proven far more successful in developing a cohesive neighborhood atmosphere.

Providing A Safety Net For Those Most In Need - when we fail to provide enough jobs, adequate housing and self-help programs, this precept of the urban agenda is the last chance for our society's most oppressed people. CDBG funds are vitally important in providing this assistance:

- ° In Louisville CDBG funds provided renovation money to open a day shelter for the homeless. This shelter provides laundry facilities, personal care items (soap, shampoo, etc.) and counseling services seven days a week. When the day shelter opened in April of 1986, 75 homeless people began using it each day. Today, that number has grown to 250 people per day.

- ° In Sacramento, California CDBG funds are used to support a program that helps homeless families, the fastest growing segment of the homeless population. The program works to locate homeless families in emergency shelters and then continues its efforts to see that the families remain together and eventually rejoin the mainstream of society.

- ° In Providence, Rhode Island CDBG funds provide 90 percent of the operating budget for the Hartford Park Community Center, a local human service provider located in a public housing project. The Center provides breakfast and dinner programs for senior citizens, recreation programs for children, as well as emergency clothing and crisis counseling for area residents.

The reauthorization of the CDBG program, and continued discretionary use of those funds by each individual city, is essential if the traditional federal-urban partnership is to continue.

The program is so essential to cities that the U.S. Conference of Mayors and cities across the country are designating the week of April 11-18, 1987 as National Community Development Week. News conferences, seminars and other special events are being scheduled to highlight the importance of the CDBG program to cities and their citizens.

The federal-urban partnership was established because of the well-documented fact that state governments are dominated by the interests of suburban and rural areas. When budget cuts come at the federal level, state governments merely pass them on to the cities. That pattern has been well-established during this decade.

I've already mentioned how federal budget cuts have begun eroding that partnership. Now there is another ominous cloud on the horizon.

I'm referring to a report last year by a private commission headed by Senator Daniel Evans (R-Washington) and former Virginia governor Charles Robb that proposed a major welfare reform plan. That proposal has now been introduced in the Congress and is being considered by the House Ways and Means Committee.

If this welfare reform bill is enacted, the federal government would assume about 90 percent of the costs of Medicaid and Aid to Families with Dependent Children, while state governments would assume responsibility for financing a number of federal programs, such as mass transit, urban development, waste water treatment and low-income housing programs.

The result is that cities would be put at the mercy of state governments, and that means city governments would end up assuming more and more financial responsibility for those programs. The U.S. Conference of Mayors estimates this transference would cost local governments about \$7 billion annually.

I believe it is appropriate to look at H.R. 4 within the overall perspective of the federal-urban partnership. That partnership is essential to the well-being of our nation's cities and, therefore, essential to the well-being of our nation.

But the partnership is being threatened by federal action that is severely undermining the fiscal integrity of our major urban areas.

There is a very real danger that, if not checked now, federal budget cuts to urban areas will result in the future of our cities being mortgaged in exchange for nothing more than the need to meet Administration budget targets, unrealistic and arbitrary budget targets that were devised in the time-honored tradition of using blue smoke and mirrors.

Our cities deserve better. Our cities have earned more consideration than that.

Thank you.

THE FEDERAL BUDGET AND THE CITIES

*A Review of the President's Budget
for Fiscal Year 1988
October 1, 1987 to September 30, 1988*

JANUARY 1987



Prepared by
UNITED STATES CONFERENCE OF MAYORS
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Washington, D.C. 20006
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**Published by the United States Conference of Mayors
1620 Eye Street, N.W., Washington, D.C. 20006**

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**Additional copies of this publication may be obtained from the U.S. Conference of
Mayors, 1620 Eye Street, N.W., Washington, D.C. 20006**

The price of this publication is \$15.00

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PREFACE

This report, The Federal Budget and the Cities, examines the President's proposed budget from an urban perspective. It begins with a general overview of the budget and then addresses the various federal functions that are present in the nation's cities.

The budget is the single most important federal document published each year. It is the vehicle for formulation of national economic and fiscal policy and represents the most significant and comprehensive collection of the priority decisions that the United States government makes in the course of the year.

The Fiscal Year 1988 budget comes at a time of continuing national concern with unemployment, illicit drug activity, public health threats, hunger and homelessness. It also comes at a time when many cities continue to experience deterioration of their infrastructures, and severe economic and fiscal problems. And this year, the deficit reduction target mandated by Gramm-Rudman-Hollings adds to the concern of urban leaders.

This budget analysis is prepared by the staff of the U.S. Conference of Mayors. The Conference, established in 1933, represents the largest cities in America -- those with populations of 30,000 or more. Judgements made in this analysis are based on policies adopted by the members of the Conference.

John J. Gunther
Executive Director
U.S. Conference of Mayors

January 6, 1987

OVERVIEW

While some positive points may be found in the Administration's budget proposal for Fiscal Year 1988, on balance it represents a short-term, short-sighted reaction to the federal deficit problem. More specifically, it is a budget proposal dominated by the arbitrary targets of the Gramm-Rudman-Hollings deficit reduction legislation, hemmed in by the Administration's inflexible commitment to escalating defense spending, and by its unwavering opposition to tax increases.

The Administration's proposal for FY88 projects \$1.024 trillion in spending and \$916.6 billion in receipts. The resulting \$107.8 billion deficit is just under the \$108 billion Gramm-Rudman-Hollings deficit target for FY88. The budget projections are based on economic growth assumptions of 3.1 percent in 1987 and 3.5 percent in 1988 (GNP growth in constant dollars). These assumptions are substantially higher than the estimate for 1986 (2.7 percent) and the projections of most private economists. Slower economic growth would cause higher spending and reduced revenues, resulting in a larger deficit than the proposed budget projects.

The FY88 proposal includes spending increases for defense and a number of other programs, but balances these with a \$42.4 billion package of deficit reduction measures in order to meet the Gramm-Rudman-Hollings target. Spending cuts, including many cuts and terminations of urban programs, represent \$18 billion of the deficit reduction in the package. \$22.4 billion is derived from revenue changes which include new tax collection procedures, sale of federal loans and other assets, and more user fees -- but no tax rate increases or major new taxes. The remaining \$1.3 billion represents reduced interest charges.

The Conference of Mayors has long recognized that the federal deficit must be brought under control and that the nation must maintain an adequate defense. The Conference has also acknowledged that in order to meet these goals without decimating domestic spending programs, increases in federal revenues -- through means other than the personal income tax -- must not be ruled out.

Members of the Conference of Mayors are responsible for planning for the future of their communities. They know that failure to make certain key investments now, whatever the pressure of the moment to hold back on those investments, is to compromise that future, to rob our children and grandchildren of their potential and their heritage.

From this perspective, the deficiencies of the Administration's budget proposal are clear, and they are serious.

- The Administration's proposal would continue the erosion of the federal/city partnership for community and economic development and maintenance of the urban infrastructure. It would again cut funding for Community Development Block Grants, mass transit and housing, would terminate Urban Development Action Grants and the Economic Development Administration, and would phase out construction grants for wastewater treatment plants.

- The budget proposes further spending cuts in the programs which invest in the future of our citizens -- in their education, their health, their safety, their preparation for employment. Postponing investments in these areas is particularly short-sighted; it will lead to higher costs in future years and for future generations. The budget also proposes cuts in many of the programs which provide income assistance and basic support services to the poor -- at a time when hunger, homelessness and poverty are increasing in many of the nation's cities.
- The budget continues the distressing trend of dumping federal fiscal problems on local government through changes in the tax code and other revenue measures. It imposes on state and local governments an additional \$2.5 billion in mandated costs and revenue reductions in FY88. Cities have limited and frequently regressive tax bases, and are in danger of losing their capacity to finance basic services as they must cope with an increasing burden of federal mandates and federal encroachment on local revenues and financing tools. An increased capacity for leadership and action has developed because of the cities' partnership with the federal government over the past several decades; there is now a real threat that federal dumping of fiscal problems at the local level will cripple the ability of city governments to maintain this capacity in the years ahead.

Among the program proposals of particular concern in this budget document are the following:

- The absence of a General Revenue Sharing program in FY88.
- Rescission of \$375 million from the current \$3 billion FY87 budget for the Community Development Block Grant, and reduction of funding to \$2.6 billion in FY88.
- Termination of the Urban Development Action Grant program in FY88, and rescission of all but \$20 million of the current year's appropriation.
- Emphasis on vouchers for assisted housing, with no significant new housing construction.
- Termination of the Economic Development Administration with the rescission of \$125 million of the current year's funding.
- A 60 percent cut in public transportation aid -- from \$3.56 billion in FY87 to \$1.37 billion in FY88.
- A one-third cut in wastewater treatment grants, and termination of the program by FY93.
- A \$4.7 billion cut in Medicare in FY88, and the generation of \$2.3 billion in new revenue, in part from mandatory coverage of state and local employees and increases in the Medicare premium level.

- A \$1 billion cut in Medicaid payments for health care for the poor.
- No new funding for the Section 202 housing program for the elderly.
- Cuts in all three programs providing assistance to state and local governments under the Anti-Drug Abuse Act of 1986.
- A one-fourth cut in funding for education programs, primarily through the elimination of vocational education and major reductions in student financial assistance and loan programs.
- Current fiscal year rescissions of \$332 million in the Job Training Partnership Act.
- Nearly \$800 million in cuts in nutrition programs in FY88.
- Elimination of the Legal Services Corporation and the Work Incentive Program.
- Cuts in several income security programs for the poor, including Aid to Families with Dependent Children, totalling about \$1.15 billion.
- Elimination of all programs providing direct financial assistance to state and local law enforcement agencies.

The shifting of federal revenue problems to local governments takes several forms:

- Extending Medicare coverage to all state and local employees is estimated to cost \$1.6 billion in FY88.
- Repealing the exemptions from gasoline and other highway excise taxes is expected to cost local governments \$600 million in FY88.
- Changing the basis for sharing receipts from mineral leasing and timber sales on federal lands from gross to net receipts would cost state and local governments an estimated \$340 million in FY88.

The President's budget also contains several proposals to create or increase funding for programs of benefit to cities. Among these: a 28 percent increase for AIDS research and education; a \$10 million increase in the Emergency Food and Shelter Program; the addition of nearly \$100 million for acid rain research; the creation of a new \$85 million demonstration program to reduce infant mortality through case management.

With this budget analysis as a base, the Conference of Mayors stands ready to work with the Administration and the new Congress on a federal budget that encourages, not discourages, the development of strong local economies throughout the nation. The Conference stands ready to work toward a federal budget that strikes a true balance between the needs of our citizens and the constraints of current fiscal policy.

KEY URBAN PROGRAMS

A 10 Year Perspective

(Budget authority in billions)

	FY78 Actual	FY88 Proposed
Community Development Block Grants	\$3.6	\$2.6
Urban Development Action Grants	.4	-0-
General Revenue Sharing	6.9	-0-
Urban Mass Transit	2.0*	1.4
Employment and Training	9.6*	3.4
Economic Development Administration	.5	-0-
Law Enforcement Assistance	.6	-0-
Clean Water Construction	4.5	2.0
	<u>\$28.1</u>	<u>\$9.4</u>

Total DECREASE in actual dollars -67%
 Total DECREASE adjusted for inflation -80%

Assisted Housing (in units)	338,000	102,000
Total DECREASE in households assisted		-70%

Defense	\$117.9	\$312.0
Total INCREASE in actual dollars		+164%
Total INCREASE adjusted for inflation		+56%

*Outlays

PROPOSED FY88 REDUCTIONS IN SELECTED FEDERAL-URBAN PROGRAMS

PROGRAM	CHANGE IN BILLIONS OF DOLLARS FY87 TO FY88
Community Development Block Grant	- .40
Urban Development Action Grants	- .23
HUD Assisted Housing	-3.90
Rental Rehabilitation Grants	- .13
Housing Development Action Grants	- .10
Economic Development Administration	- .19
Clean Water	- .40
Mass Transit	-2.10
Drug Enforcement	- .23
Juvenile Justice	- .07
Justice Assistance	- .04
Education	-5.50
Food Stamps	- .28
Child Nutrition	- .47
Medicare	-4.70
Medicaid	-1.30
Social Services	- .07
Legal Services Corporation	- .31
Work Incentive Program	- .10
Aid to Families with Dependent Children	- .32
Child Support Enforcement	- .15
Low Income Home Energy Assistance	- .60
Refugee and Entrant Assistance	- .09
TOTAL	-21.68

AGING

The Administration's FY88 budget requests a number of changes which will adversely affect programs that benefit the elderly. These include no new funding for the Section 202 elderly housing program; reductions in health benefits and increased out-of-pocket expenses in the Medicare program; reductions in aging research and training programs; and the folding-in of funds for nutrition and social services programs of the Older Americans Act with other human service programs.

- e The FY88 budget provides no new funds for Section 202 elderly housing (with its accompanying Section 8 rent subsidy). Rather, the Administration will request that 2,000 units (\$91 million of direct loan and \$267 million for rent subsidy) of the 12,000 units funded for FY87 be postponed to FY88.
- e The budget proposes that Medicare funding of \$81.9 billion include a number of legislative and regulatory changes to reduce outlays by \$4.7 billion and increase revenues by \$2.3 billion. These proposed actions include: a delay in initial Medicare coverage (\$295 million); reduction in physician ' fees (\$200 million); repeal of a number of new services provided in the Omnibus Reconciliation Act of 1986 (\$323 million); and an increase in Part B premiums (\$571 million).
- e The budget proposes that funding for Older Americans Act programs be included within the proposed Social Services Discretionary Programs to be funded at \$2.2 billion, a \$69 million reduction below the current FY87 level. While the budget does not specify the funding level for each of the 26 programs of the proposed consolidated funds, it anticipates the transfer of \$12.5 million (which is half of FY87 funds) for aging research and training. Older Americans Act programs up for reauthorization in 1987 were appropriated in FY87 at \$725 million; these include: support services and centers (\$270 million); congregate meals (\$348 million); home-delivered meals (\$74 million); and training and research (\$25 million).

In 1986 the Census Bureau reported that the number of persons aged 65 or older living in poverty had increased 126,000 (3.5 million in 1985 compared to 3.3 million in 1984), representing the highest poverty rate (12.6 percent) among adults. Each day over 5,000 persons reach the age of 65; this represents a net increase of over a half-million each year. At a time of increasing numbers of older persons, particularly the very old, combined with proposed cuts in many federal programs that directly and indirectly benefit the elderly, cities are being asked to assume increased responsibilities.

ARTS AND HUMANITIES

National Endowment for the Arts (NEA)

The FY88 Administration budget request for the National Endowment for the Arts is \$145.2 million. The request is \$19.9 million, or 12 percent, less

than the \$165.1 million in funds appropriated by Congress in FY87. Programs in the NEA of special interest and support to cities are the Design Arts Program, the Visual Arts Program, and the Local Programs, which help to support local arts agencies.

National Endowment for the Humanities (NEH)

The National Endowment for the Humanities supports research, scholarship, education, and general audience programs in the humanities. The Administration's FY88 budget request is \$126.89 million or \$15.6 million (10.9 percent), less than the Congressional FY87 appropriation of \$142.49 million. NEH programs of importance to cities include humanities instruction in elementary schools, secondary schools, and institutions of higher learning many of which are in cities; fellowships and seminars for college and secondary school teachers, independent scholars, and younger scholars; public humanities projects; and humanities projects in museums, historical organizations, and libraries.

Institute of Museum Services (IMS)

The Institute of Museum Services provides funds through annual, competitive grant programs to help the nation's museums meet operating expenses and conservation needs. In its FY88 budget request, the Administration has requested \$19.25 million for the IMS, a substantial increase over its \$330,000 request in FY87. Still, this represents a decrease of \$2 million from the FY87 Congressional appropriation of \$21.25 million.

COMMUNITY DEVELOPMENT AND HOUSING

Community Development

In the Administration's FY88 proposal, Community Development Block Grants (CDBG) funded at \$3 billion in FY87, would face a \$375 million rescission, of current budget authority; the lower FY87 funding level produced by the rescission, \$2.6 billion, is proposed again for FY88. To accompany the cut in CDBG the Administration would develop a targeting plan to direct funds to communities showing the greatest need. The budget also proposes that new housing construction be considered an eligible CDBG activity.

The budget proposes that the Urban Development Action Grant (UDAG) program be terminated. The Administration also proposes to rescind all but \$20 million of the FY87 UDAG appropriation of \$225 million. This would include the January metro round. The Section 312 Rehabilitation Loan and Section 108 Loan Guarantee programs are also terminated.

Housing

The Administration proposes to continue to emphasize vouchers as the "cornerstone" of its housing policy. Hence, the budget proposes to provide 99,000 additional vouchers (79,000 Housing and Urban Development vouchers and 20,000 Farmers Home Administration vouchers). In addition, the budget proposes to provide 3,000 units of new housing construction specifically for

Indians and for the elderly and handicapped. In sum, the Administration proposes to provide 102,000 additional households with subsidies in FY88.

As for public housing, the budget proposes \$1 billion for modernization, and \$1.462 billion for public housing operating subsidies. The Administration proposes a shift of \$436.9 million of public housing modernization FY87 funds to FY88, which would result in a \$1 billion program for each fiscal year. The budget also proposes that \$85.3 million of appropriated public housing operating funds be shifted from FY87 to FY88. According to HUD, these shifts are not deferrals under the Impoundment Control Act. Supplemental language will be sent to Congress to request the shift of these funds.

There are a number of other rescissions of FY87 funds in the FY88 budget: 2,500 units are rescinded from the appropriated 7,500 for Section 8 Moderate Rehabilitation; the entire appropriated \$99.5 million for Housing Development Grants (HoDAG) is rescinded; \$125 million of the \$200 million appropriated for Rental Rehabilitation is rescinded, leaving \$75 million. The Rental Rehabilitation program would be funded at \$75 million in FY88.

DEFENSE

Total defense spending authority would increase to \$312 billion under the Administration's budget proposal for FY88, about a 3 percent increase in after-inflation dollars from the level approved by Congress for FY87. Defense spending represents 29 percent of total proposed spending for FY88. In addition, the Administration is requesting a \$2.8 billion supplemental appropriation for defense in the current budget year. To accommodate the additional defense spending without increasing the FY87 budget, the Administration is proposing rescissions in non-defense program spending already appropriated for this year, including cuts in priority city programs.

DRUG CONTROL

The budget proposes sharp reductions in FY88 in the funds provided by the Anti-Drug Abuse Act of 1986 to assist state and local governments in combating the drug epidemic: 1) No funds are included for assistance to state and local law enforcement (\$225 million was authorized for this in FY87); 2) the \$252 million included in the Act for research and treatment is to be spread over FY87 and FY88; and 3) \$100 million is included for drug education; this is half of the FY87 level.

Funding for the Alcohol, Drug Abuse and Mental Health Block Grant will continue at the current level of \$495 million.

The budget requests an additional \$61.3 million to increase personnel in the Drug Enforcement Agency, the Federal Bureau of Investigation, U.S. attorneys' offices and other parts of the Department of Justice.

ECONOMIC AND BUSINESS DEVELOPMENT

A major change from previous Administration budgets is the continued funding for the Small Business Administration, although this would be at the cost of terminating the Minority Business Development Agency within the Department of Commerce. In previous years, the Administration has proposed the opposite: the consolidation of SBA's programs into MBDA. In FY88, it is proposed that MBDA's programs be consolidated into SBA's Office of Minority Small Business and Capital Ownership Development. The Administration also proposes the sale of a portion of SBA's related loans in the government's portfolio.

Once again, the Administration proposes the elimination of the Economic Development Administration. The Administration also proposes a rescission of \$125 million to terminate the EDA's assistance programs this year.

The International Trade Administration, which has responsibility for trade development and administration, is to receive a slight increase in its proposed budget, while the U.S. Travel and Tourism Administration will continue to be funded at \$12 million, only if new user fees are collected from the travel industry.

EDUCATION

The Administration proposes rescissions of approximately \$2.5 billion in this year's \$19.5 billion budget for the programs under the Department of Education, and further cuts of \$3 billion in FY88. This effectively cuts the Department's budget by about one-quarter, reducing it to \$14 billion in FY88. Three programs absorb the bulk of the proposed cuts. Vocational education, for which \$900 million was appropriated in FY87, is proposed to be eliminated in FY88. Student financial assistance is proposed to be reduced from \$5.5 billion in FY87 by a \$1.3 billion rescission, and to be further reduced from this level to \$3.3 billion in FY88. The Administration proposes a rescission that would cut guaranteed student loans from the estimated FY87 level of \$3.3 billion to \$2.7 billion, and then to reduce the program further to \$1.2 billion in FY88.

EMPLOYMENT AND TRAINING

Funding for employment and training would increase to \$4.4 billion in FY88 from the current level of \$3.7 billion. Funding for the Job Training Partnership Act (JTPA) would be reduced to \$3.4 billion in FY88, but a new program for displaced workers is proposed, with funding requested at \$980 million. The budget proposes two new initiatives.

The first new initiative is the \$980 million, redesigned worker adjustment program which would meet the needs of all dislocated workers,

regardless of their reasons for unemployment. Funding would be generated by the transfer and/or rescission of funds in Employment Services and Unemployment Insurance; also an estimated \$640 million would come from new revenues.

The second requests an amendment to Title II of JTPA, replacing the current Summer Youth Employment Program with a program allowing local areas to provide additional services. These services could include a year-round training program for AFDC youth between the ages of 14 and 21. Local areas would have the option of utilizing this new program or continue with the traditional summer (II-B) program for economically disadvantaged youth. This program would be funded at \$800 million, representing an increase in FY88 of \$50 million over the \$750 million authorized for the Summer Youth Employment Program for FY87.

A rescission of \$332 million is proposed in FY87 for the Employment and Training Services function, including reductions in the Block Grant, SYEP, and the Dislocated Worker (Title III) Assistance Program.

The FY88 budget request includes \$1.78 billion for the basic grants, a continuation of the FY87 dollar level.

The Job Corps program, which provides remediation and vocational skills training to disadvantaged youths between 16 and 21 years of age, would remain at approximately the current funding level (\$651.7 million) in order to maintain all existing centers.

Other Programs

The Administration is requesting \$200.9 million for National Programs for FY88. This would include assistance to Native Americans, migrants and seasonal farmworkers, veterans, national commissions and pilot demonstration efforts. This represents approximately \$9 million less than was appropriated for FY87.

The WIN program is again slated for elimination. This program is designed to help AFDC recipients obtain employment.

The Comprehensive Community Service Employment Program would remain at the FY87 level of \$326 million. This jobs program is authorized under Title V of the Older Americans Act.

The Administration proposes to eliminate all federal support for vocational education; \$900 million were appropriated in FY87.

The Program Year

JTPA established a nine-month forward-funding cycle by creating a program year period which begins July 1 and ends June 30. The FY88 budget proposal for JTPA is for expenditures that will begin on July 1, 1988 and run through June 30, 1989. The newly-proposed dislocated worker program would operate on a normal fiscal year basis, as opposed to its current JTPA program year basis.

ENERGY

The Administration's FY88 budget proposal for the Department of Energy is \$13.9 billion, a 10 percent increase over the FY87 budget. Actual program activity, however, is essentially unchanged, due to substantial funds that were carried over to FY87 from prior years. Budget requests for defense activities and nuclear waste activities are up slightly again this year; but programs of importance to cities are sharply curtailed, and \$256.7 million in FY87 rescissions--mostly from urban programs--are being proposed to Congress.

In the research and development area, the largest cuts are in conservation research and development at \$80.1 million, down from \$161.1 million in FY87; solar and other renewables at \$93.6 million, down from \$146.3 million; and fossil energy at \$169.4 million, down from \$301.9 million last year. These programs also are the targets of \$75.6 million in proposed rescissions for FY87.

The Administration proposes no federal funds in FY88 for the conservation grants program, which has provided funds to state and local governments to undertake energy conservation measures. The budget document notes that the states have available large sums specifically earmarked for conservation and other energy-related activities from settlement of oil pricing and allocation violations. In addition, rescission of \$112.4 million in FY87 funds is proposed, thus limiting FY87 funds for this program to \$134 million in non-federal funds from oil overcharge settlements.

In this year's budget document, the Administration restated last year's proposals for selling the Naval Petroleum Reserves at Elk Hills (CA) and Teapot Dome (WY) and the five power marketing administrations.

ENVIRONMENT

The Administration's budget for environmental programs, for the first time in years, calls for increases in funding for some very important programs to cities. Still, in perhaps the largest of all federal urban environmental programs - the Construction Grant Program for wastewater treatment plants - the Administration has again called for program termination by FY93. A closer look at the budget reveals:

- The Funding of Construction Grants at \$12 Billion Through FY93 - This funding amount is \$6 billion less than that level which would have been authorized by the Clean Water Act, pocket vetoed by the President at the close of the 99th Congress.
- Operating Program Workyears Reduced by One Percent at EPA - The EPA operating budget supports basic implementation of federal environmental programs and assistance. While most programs lose proportionally in the FY88 budget, water quality programs lose the most, with small increases proposed in pesticides and hazardous waste. In addition state and local grants for environmental programs are up \$9.5 million over FY87.

- Addition of Clean Coal Technology Demonstrations and Acid Rain Research - The budget, in an effort to implement the Special Envoys' Report on Acid Rain, calls for \$96.5 million in acid rain research. Included in this amount is \$7 million for retrofitting coal fire burners.
- Creation of a Well Head Protection Planning Program at State Level - Included in the funding request for the implementation of the Safe Drinking Water Act is \$8 million for state well head protection planning programs.
- Superfund - Under the Superfund Amendments of 1986, an independent source of funding -- the superfund environmental tax -- was legislatively created. This new funding source is expected to generate \$1.6 billion on superfund revenues for FY88; this is the amount being requested by the Administration. However, the Administration's request is still \$225 million less than the authorization level.

FISCAL ASSISTANCE

The Administration proposes no funding for General Revenue Sharing grants in FY88; \$228,000 in outlays would be provided for staff and other expenses associated with closing down the Treasury Department's Office of Revenue Sharing. A small Interior Department program of payments-in-lieu of taxes would remain at the FY87 level of \$105 million. However, the Administration is again proposing that sharing with state and local governments of receipts from mineral and timber exploitation on federal lands be on a net rather than the traditional gross basis; this change would reduce state and local receipts from \$800 million in FY86 to \$460 million in FY88, for a loss of about \$340 million.

FOOD STAMPS AND NUTRITION

The FY88 budget proposes \$11.7 billion for the Food Stamp Program, a reduction of \$109 million from FY87 funding and \$278 million less than provided for in current law. The Administration proposes to cut \$264 million by withholding funds from states for erroneous food stamp payments. Nutrition assistance for Puerto Rico is proposed at \$825 million in FY88, a reduction of \$27 million from FY87, which returns the program to the level it was at when it was enacted in 1982.

Supplemental nutrition assistance for Women, Infants, and Children (WIC) is proposed at \$1.7 billion, an increase of \$24 million from FY87. This amount will support 3.3 million participants per month, less than the 3.4 million participating under the FY87 program. Proposed cuts in child nutrition programs total approximately \$470 million below the FY87 funding level. The largest cut is in the school lunch program--from \$2.8 billion in FY87 to \$2.5 billion in FY88; the Administration is proposing to eliminate nutrition

subsidies for meals served to children from families with incomes above 185 percent of the poverty level. Funding proposals for other child nutrition programs are as follows: school breakfast (\$454 million or \$2 million more than FY87); child care feeding (\$373 million, \$163 million less than FY87); and summer feeding (\$115 million, \$12.8 million less than FY87). The Administration proposes to eliminate the special milk program (\$18.3 million in FY87) and nutrition education and training (\$5 million in FY87). As in past years, the FY88 budget calls for the elimination of the temporary emergency food assistance program, which is presently at \$50 million.

HEALTH

The President's FY88 budget proposes large reductions in spending for federal programs affecting the health of city residents: overall, the Administration proposes a \$6.7 billion reduction in major medical programs from the projected FY88 level of spending for current services. The largest federal health program, Medicare, providing health insurance for the elderly, poor and disabled, is scheduled for a \$4.7 billion reduction from current services and an increase of \$2.3 billion in revenue generated through legislative and regulatory initiatives. Proposed alterations for this program include increasing revenues through mandatory coverage of all state and local employees (\$1.6 billion) increasing Medicare Part B premiums to 25 percent for current enrollees, 35 percent for new enrollees and 50 percent for third party payers (\$571 million); and repealing provision of last year's budget law which expanded coverage to vision care, additional occupation therapies, and the services of physician assistants (\$323 million).

(The budget document contains no mention of the expansion of the Medicare system to cover catastrophic health insurance, proposed last November by Department of Health and Human Services Secretary Otis Bowen in response to President Reagan's "State of the Union" address request.)

Administration proposals for Medicaid, the federal health care program for the poor, would limit federal payments to \$25.4 billion in FY88, a \$1.3 billion cut from current spending projections. Additionally, the President's budget would reduce spending by \$360 million in FY88 through the elimination of all special matching rates for state and local administrative costs, including fraud control and would reduce matching payments for excessively high administrative costs. The Administration proposes to undertake a new \$85 million initiative to reduce infant mortality through demonstration and waiver projects to provide comprehensive case management to pregnant women, including teenagers.

Funding for AIDS research and education is requested at a \$534 million level, a \$118 million increase (28 percent) over the FY87 amount. Funding for major block grants (Maternal and Child Health, Community Centers and Preventive Health Services) are retained at their FY87 levels (\$478 million, \$400 million and \$90 million, respectively). In addition, the Administration's budget would rescind \$74 million in FY87 funds for the care of "high income" non-service-disabled veterans.

HUMAN SERVICES

In the Administration's FY88 budget request, a variety of social service programs, including Head Start, child welfare and Older Americans Act programs would be combined in a "generic appropriation request" for social services discretionary programs of \$2.2 billion, \$69 million below the FY87 level for these programs. The FY88 budget published by the U.S. Department of Health and Human Services explains that "this generic request is in no way a block grant consolidation proposal," and that funding allocations among the programs included would be made by the Department. Several discretionary programs now under family social services would be transferred to the generic appropriation, leaving only the foster care and adoption assistance entitlements in that category.

Supplemental funds of \$165 million are requested for family social services for FY88; all but \$43 million of these funds would come from other programs, including aging research, child welfare services and the Social Services Block Grant. Funding for the Social Services Block Grant is requested at \$2.7 billion, the FY87 level.

Both the Legal Services Corporation and the Work Incentive Program are slated for elimination in FY88. FY88 funding of \$310 million, \$58 million below the FY87 level, is proposed for the Community Services Block Grant, to begin a phase-out of the program, according to the budget document.

Homelessness

For the first time the Administration proposes funding that relates to homelessness. For FY87 Congress appropriated \$70 million for the Emergency Food and Shelter Program administered by the Federal Emergency Management Agency; the Administration proposes \$80 million for this program in FY88. In FY87 Congress also provided \$10 million for a shelter rehabilitation program administered by the Department of Housing and Urban Development; the Administration requests no funds for this program in FY88. The transitional housing demonstration program, funded by Congress at \$5 million in FY87, would be continued at its current level in FY88. Funds for the National Institute of Mental Health's Community Support Program would increase, with \$20 million to be available a \$5 million increase over FY87 for demonstrations that provide mental health services to the homeless mentally ill.

IMMIGRATION REFORM

The FY88 budget includes funding to implement the Immigration Reform and Control Act passed by the 99th Congress. This landmark immigration bill legalizes certain illegal aliens; reimburses state and local governments for four years for the cost of providing benefits to those legalized through the bill; prohibits the hiring of illegal aliens; establishes a special legalization program for foreign agricultural workers; and increases border enforcement. The Administration is proposing \$216.5 million for the Immigration and Naturalization Service and for other agencies of the Department of Justice to implement the new law in FY88. The budget request also includes a FY87

supplemental appropriation of \$138 million for INS to start carrying out the legislation. An additional \$149 million is expected to be obligated in FY87 and \$181 million in FY88 from fees charged to applicants of the legalization program. The FY88 budget also includes \$928 million for the Social Security Administration of the Department of Health and Human Services to reimburse states for the cost of providing financial, medical and educational assistance to newly legalized aliens.

INCOME SECURITY

While outlays for social security are estimated to increase by \$12 billion to \$217 billion in FY88, several income security programs which benefit the poor, including Aid to Families with Dependent Children (AFDC), Child Support Enforcement, the Low Income Home Energy Assistance Program (LIHEAP), and refugee and entrant assistance all are slated for cuts.

AFDC would be cut by \$322 million below the current services level by ending caretaker benefits when the youngest child turns 16, collecting quality control disallowances prospectively from the states, and requiring single minor parents to live with their parents to be eligible for AFDC, and through a series of work and training proposals. Child Support Enforcement would be cut \$146 million by reducing federal matching of administrative costs and limiting incentive payments to those states which have higher cost effectiveness ratios.

LIHEAP would be reduced by one-third to \$1.2 billion, recognizing the "oil overcharge settlements available to states for these purposes," according to the budget document.

Refugee and entrant assistance would be cut by over one-fourth, from \$340 million in FY87 to \$253 million in FY88, with these cuts coming primarily from reimbursement to state and local governments for cash and medical assistance, social services and administrative costs.

No cuts are proposed for Supplemental Security Income. The budget proposes changes in unemployment compensation that would transfer to the states authority, financing and responsibility for administration of the state unemployment insurance and employment service systems. The budget does not include any of the Administration's welfare reform proposals.

PUBLIC SAFETY

The Administration's FY88 budget request for the Department of Justice is \$5.6 billion, a seven percent increase over the FY87 level. The largest increases proposed are in the areas of immigration reform and prison expansion, but the budget contains no funds for the five programs, administered by the Office of Justice Programs, which currently provide financial assistance to state and local governments' criminal justice systems: the Juvenile Justice Program (\$67.6 million), the State and Local Assistance Program (\$44.4 million), the Regional Information Sharing System (\$12 million), the Mariel

Cuban grant program (\$5 million) and the State and Local drug enforcement grants authorized under the Anti-Drug Abuse Act of 1986 (\$225 million). The combined budget request for the National Institute of Justice and the Bureau of Justice Statistics is \$42.4 million, eight million dollars over FY87 levels. Funding for other programs of the Office of Justice Programs would remain at current levels: \$4 million for the missing and exploited children program; \$10 million for the public safety officers' benefits program. \$1.2 million is requested for the emergency assistance program. DOJ's FY88 budget request includes \$1.5 billion for the Federal Bureau of Investigation, a \$181 million increase over FY87. An increase of \$32 million, or a total of \$522 million, is proposed for the Drug Enforcement Administration.

The FY88 budget request for emergency management planning and assistance activities, administered by the Federal Emergency Management Agency, is \$276.8 million, a \$15 million increase over FY87 levels.

TRANSPORTATION

The Administration's proposed FY88 transportation budget, much like those rejected by Congress in the past, calls for large scale reductions in transportation programs vital to cities. The budget provides no general funds for highway and mass transit and at the same time imposes a \$600-million-a-year tax on state and local governments to fund the remaining programs. This tax would be in the form of a nine-cent-per-gallon tax on gas. State and local governments are currently exempt from paying the gas tax.

Specifically the president's budget calls for the:

- Elimination of Funding for Mass Transportation - The budget proposes to eliminate funding for mass transit programs from the general fund. In order to accomplish this, the budget would eliminate the development of any new transit systems and fund those already on line at 40 percent of current levels. The source of this 40 percent would be the mass transit account of the trust fund.
- Limitation of Highway Funding to that Amount Generated by the Gas Tax - The budget states that the funds authorized for highway construction exceed the revenues generated by the gas tax, however, the Administration's figures do not include the interest generated annually by the trust fund. They feel these funds are not user fees therefore not attributable to the program.
- Increase in Federal Aviation Administration's Funding - The budget calls for an increase of \$437 million for the nation's air traffic control and navigation systems, including 225 additional air traffic controllers.
- Sale of Amtrak - For the third consecutive year the budget proposes to eliminate the federal subsidy to Amtrak. This year, the additional step of selling the railroad has been added. The budgetary result of this, regardless of its likelihood of success, is that one billion new revenue dollars are credited toward deficit reduction.

VETERANS

The Veterans Administration provides wide-ranging services to the United States' 27.7 million veterans, 48.7 million members of their families, and two million survivors of deceased veterans. Its health care, pension, compensation, education, and housing assistance programs have important impacts on the economies of urban areas and the well-being of many residents of our cities. The Administration's proposed FY88 budget includes an appropriation of \$27.6 billion, a two percent increase over FY87 appropriation levels. The budget includes four areas of particular interest to cities: 1) It proposes legislation increasing the loan origination fee charged on VA-guaranteed housing loans from the current one percent to 2.5 percent effective June 1, 1987; estimates indicate that this would increase the average fee from \$650 to about \$1,625 per mortgage. 2) The budget proposal would rescind \$74 million in medical care funds already appropriated in FY87 for the care of "high income" non-service-disabled veterans. However, patients in this group would be able to receive care on a space available basis. 3) The Administration proposes to index compensation benefits--entitlements paid as either a disability benefit or a survivorship benefit--to the annual change in the Consumer Price Index. This cost-of-living increase, which would be effective with payments made in January 1988, is expected to be 3.5 percent for 1987. And, 4) the budget requests a \$136 million reduction in funds for readjustment benefits for dependents and Vietnam-era veterans. This reduction is based on an estimated 22 percent decline in the Vietnam-era veterans and dependent caseload.

**STATEMENT OF
THE HONORABLE JOE S. DADDONA
MAYOR, ALLENTOWN, PENNSYLVANIA**

on

H.R. 4

THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987

before the

**SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES**

March 12, 1987

STATEMENT

OF

JOE S. DADDONA, MAYOR OF ALLENTOWN, PENNSYLVANIA ,

MARCH 12, 1987

Good morning, Mr. Chairman and members of the Committee, I am Joe S. Daddona, Mayor of Allentown, Pennsylvania. I also serve on the Community and Economic Development Policy Committee of the National League of Cities (NLC).

NLC represents publicly elected officials in over 16,000 of our nation's cities and towns. I appreciate the opportunity to appear before the Subcommittee to express our support for maintaining a strong role for the federal government in addressing the housing and community development needs of our nation's cities.

The administration's FY 1988 budget proposals continue the assault of previous years on federal housing and community development programs.

It proposes deep and retroactive cuts in CDBG, UDAG, and HUD and Farmer's Home Administration assisted housing programs.

In city after city across the nation, there have been annual increases in the number of Americans without adequate shelter. The administration's budget offers no initiatives or hope for these people, it promises to put more and more desperate Americans on our streets.

NLC strongly opposes the administration's budget proposals, which if approved would further erode and eventually terminate a long standing bipartisan commitment to provide "a decent home in a suitable living environment for every American family and the development of viable urban communities and the expansion of economic opportunities for low- and moderate-income persons."

Mr. Chairman, we are grateful for your leadership in introducing H.R. 4, the Housing and Community Development Act of 1987, which provides a positive alternative to the administration's non-housing and non-community development proposals.

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As you know very well, Mr. Chairman, since 1980 there has been only one authorization of federal housing and community development programs. In 1985, assisted housing authorizations contained in the Housing and Urban Rural Recovery Act of 1983 were allowed to expire and last September for the first time since their enactment, the Community Development Block Grant (CDBG) and the Urban Development Action Grant (UDAG) programs were not reauthorized. Instead, these programs continue year to year in appropriation bills.

We agree with you that this is not a responsible way to formulate and implement national housing and community development policies.

NLC strongly supported the efforts of this Committee last year when it approved H.R. 1, the Housing Act of 1986. That legislation was the result of bipartisan negotiations to craft a housing and community development reauthorization bill that recognized the budgetary limitations of Gramm-Rudman-Hollings, while maintaining a modest commitment to these important community revitalization activities.

Unfortunately, in spite of the Herculean efforts of this Committee and the House, which approved H.R. 1 by an overwhelming margin, the administration's continued threats to veto the housing legislation and the Senate's inability to vote on its housing bill, doomed the housing legislation to an ignoble death in the waning hours of the 99th Congress.

We are hopeful that this year with the change in the Senate and your continued efforts on behalf of H.R. 4, will lead to enactment of a housing and community development bill this year.

We strongly support the provisions contained in H.R. 4 to reauthorize the CDBG program, to extend and improve the project selection criteria of the UDAG program and to continue the HUD and FmHA assisted housing programs. H.R. 4 serves as a strong foundation for expeditious committee action on the nation's expired housing and community development laws.

In addition, we urge that H.R. 4 be amended to reauthorize these programs for three years, so that local officials can have

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the continuity and consistency provided by multi-year authorizations to develop and implement comprehensive revitalization strategies.

Mr. Chairman, if I may, I would like to now introduce into the record a recently completed NLC report on housing needs and priorities entitled, A Time To Build Up: A Survey of Cities About Housing Policy.

We believe this is a timely report on a topic of great importance to the nation's cities: the programs and policies needed to address the housing problems of low income households. As the Committee debates future directions of housing policy, we hope that it will help in the effort to clarify our nation's housing needs and to address those needs with adequate policies.

The results of the 444 city survey indicate that broad segments of the U.S. population must struggle with severe housing problems, and without a strong federal role in assisting these people, the situation will worsen.

For many Americans, finding shelter has become more urgent, more difficult, more costly, and more frustrating.

These needs are not isolated. They exist in all parts of the nation, in communities large and small. The groups facing the most severe problems include the homeless, low-income renters, low-income homeowners, families with three or more children, female-headed households and recent immigrants.

The survey found that in the event federal housing assistance were cut out entirely, fewer than four percent of the cities and towns felt that neither they, their states, nor any other source would have the capacity to provide even half the assistance required to meet their most urgent needs.

Financial assistance for renters and rehabilitation of single- and multi-family housing should be the top priority for federal housing aid programs, according to the findings of the NLC survey.

Over 60% of the responses listed money payments for rental assistance as one of the top three activities to carry out if all

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current programs were put aside in order to draw up a new plan for federal housing assistance.

The next priority, rehabilitation of single-family homes, was listed by nearly 53% of the group. Multi-family rehabilitation came next with 43%.

The survey also found that city officials assign greater importance to the rental assistance certificates for existing housing (Section 8), public housing operating subsidies, and for housing assistance for the elderly and handicapped (Section 202), as compared to the use of housing vouchers. This is in sharp contrast to the administration's urging that vouchers should replace virtually all other forms of federal housing assistance.

In rating the cost-effectiveness of all federal programs used to provide housing assistance, local officials put the Community Development Block Grant well ahead of all others. Nearly 85% listed CDBG as "highly cost-effective", and the support was uniform throughout all regions of the country and among all population categories of cities.

In response to a separate questions, the 444 cities said that the "most cost effective" federal programs in their localities are: CDBG, Section 8 certificates, rental rehabilitation grants, and the public housing operating and modernization programs.

Homeless people and low-income renters have the most severe housing problems, especially in large cities and in the Northeast. While these two groups posed "severe" problems in over half of the 444 cities and towns included in the survey, their problems were rated "severe" by nearly 70 percent of the officials in cities above 200,000 population and throughout the Northeast.

It becomes clear that the housing needs in our cities and towns have not diminished, but for federal housing assistance programs, the years since 1980 have been a time to scale down. Housing assistance has fallen from \$30 billion to less than \$10 billion, and construction of new assisted housing units has come

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to a virtual halt. Only the backlog of obligations made in the 1970's has accounted for that construction, as well.

Meanwhile, we are sitting on a potential time bomb in the form of hundreds of thousands of subsidized rental units that may disappear from the market in the coming decade. The current housing certificates will soon expire for some; other units may withdraw through mortgage prepayments.

The NLC report documents an urgent need to combat this rising tide of despondency and desperation -- and to put forward a national housing policy that will work.

Before turning to what the housing and community development authorizations contained in H.R. 4 specifically mean to my City of Allentown, I would like to take this opportunity to thank you Mr. Chairman for introducing H.J. Res. 91, which designates the week of April 11-18, 1987 as National Community Development Week.

My city as well as communities across the country are looking forward to celebrating the successes of the Community Development Block Grant program in meeting the needs of our low income citizens.

CDBG

I'm sure Allentown's use of Block Grant funds is representative of many communities whose low and moderate income population accounts for half or more of its total population. In the central part of the City, where our Block Grant dollars are targeted, 61% of our residents are of lower income. This section of the City is also the oldest with the majority of structures dating from the 1860's through the 1920's. Brick rowhouses line major streets and alleys, making this the densest part of the City. The Central Business District is located here. It is an area where 42% of all households with incomes under \$15,000 are contributing more than 35% of their income towards rent. It is an area where the infrastructure has been showing signs of wear and water lines date back to the 1890's; small concrete streets and curbs and sidewalks date back to the 20's and 30's.

With this brief description, I am sure it is not difficult

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for you to imagine that the need does exist for a sound policy for neighborhood revitalization and housing assistance. It's not difficult for us to target our Block Grant funds. All you have to do is look at the statistics.

Allentown has been targeting its Block Grant resources to this area, which accounts for about 30% of our population, since the program's inception. Comprehensive neighborhood revitalization has been, and continues to be our major thrust with over 63% of our FY '85 expenditures devoted to this effort.

Our funds are truly directly assisting the neediest neighborhoods and households, whereby 86% of our FY '85 expenditures benefitted low and moderate income citizens.

The results are visible. Our vacant housing structures list now totals 20; down from 200 in 1974. Entire neighborhoods have received comprehensive treatment including systematic code enforcement, technical and financial assistance for housing rehabilitation, and public improvements and social services. This effort produced non-subsidized spin-offs in surrounding blocks, preserved the local housing stock, increased the tax base, and strengthened our economic development efforts.

However, our overall needs have not diminished. As a result of the City's changing economy, federal tax reform and past deficit reduction measures, we need time and money just to catch-up. Each year we're being asked to do more with less and less. Our entitlement peaked in 1980 at \$3.2 million; currently, we're expecting to receive \$2.4 million.

The demand for subsidized day-care far outstrips the resources. The task of providing day-care is shared by our Block Grant and viewed as an extremely important economic development tool. Low income single mothers wait as long as seven months for Title XX day-care assistance. Block Grant funds cut the waiting time enabling mothers to enter or re-enter the workforce faster.

Because the Program provides flexibility in determining local priorities, we're able to respond quickly to crises. When the homelessness problem surfaced in the early 1980's, FEMA did respond with financial assistance. However, Allentown did not

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have a shelter for families. FEMA funds could not be used for the development or rehabilitation of shelters at the time. We had the ability, through the Block Grant, to meet this need. This flexibility is one of the Program's strong points. The Sixth Street Shelter has provided assistance to 54 families but had to turn away another 150 families.

As a result of deinstitutionalization, 1,100 former Allentown State Hospital patients are now living in our center city. The City responded to this movement and the needs it created in the mid-Seventies when no other program existed. The Block Grant and area churches provided the seed money for a drop-in center when no other agency was willing to gamble with their own funds for a program that had not been tested. Today, Daybreak functions not only as a place where people feel accepted in a social group but this program now provides assistance in problem solving and accommodates members' basic needs by providing health screening, food, clothing and access to a wider social service system. Almost 100% of Daybreak members are at or below federal poverty level guidelines.

Housing Assistance

We have always advocated preservation of our existing housing stock through the Block Grant Program as well as through other assisted housing programs. We believe that continued maintenance of existing conventional public housing units and rehabilitation and use of existing housing units through the Section 8 programs is the most cost-beneficial means to accommodate assisted housing needs. Our housing authority has managed not to lose a single unit of conventional public housing since 1940 and it should be noted that these units continue to be well maintained and administered.

However, to continue this progress in Allentown, we need additional federal resources for assisted housing as evidenced by our Housing Authority's waiting list, which now totals 1,881 households. We are also deeply concerned, that effective November

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1991, that our Section 8 Existing Program will expire adding an additional \$00 to this list.

If we are to continue to effectively manage what was constructed in the Forties, attention must be given to increased public housing operating and modernization funds. There are insufficient modernization funds at present to create any significant dent in the work needed to be done.

In addition, our own operating costs have continued to increase but operating subsidies have not kept pace.

Section 312

The HUD Section 312 Loan program is of particular concern to us. Allentown has efficiently managed the reconstruction of deteriorated properties using this HUD loan program. During FY '85 Allentown rehabilitated 57 homes all occupied by lower income households representing an investment of \$1,100,000. I believe this program, as it is currently structured, is one of the more cost effective approaches to providing low and moderate income housing.

UDAG

Allentown has been a strong advocate of the UDAG program since its creation and we continue to believe that this is a cost effective economic development tool. The UDAG program involves only a very small investment of federal funds and is able to leverage a great deal of private investment in the nation's distressed cities, helping these cities to strengthen their economic base. Recent controversy concerning selection priorities and regional differences has, perhaps, blurred the fact that the real competition for development that cities face is not each other but the more affluent suburban areas surrounding them. Keeping jobs in central cities is indeed a very legitimate and important public purpose.

Conclusion

I have briefly detailed Allentown's experience as an example of many cities who are in similar circumstances. It is hard to

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overemphasize the importance of the housing and community development programs authorized by this Committee and the projects and jobs they create in cities like mine and others throughout the nation.

**NATIONAL
ASSOCIATION
of
COUNTIES**

*600 First St. NW, Washington, DC 20001
202.393-6226*

**STATEMENT OF
THE HONORABLE BARBARA F. BACHUR
COUNCILMEMBER, BALTIMORE COUNTY, MARYLAND**

**BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS**

**ON BEHALF OF
THE NATIONAL ASSOCIATION OF COUNTIES
WASHINGTON, D.C.**

MARCH 11, 1987

GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE. I AM BARBARA BACHUR, MEMBER OF THE BALTIMORE COUNTY MARYLAND COUNCIL, AND CHAIR OF THE COMMUNITY DEVELOPMENT STEERING COMMITTEE FOR THE NATIONAL ASSOCIATION OF COUNTIES.

AS AN ELECTED OFFICIAL AND LONG TIME ADVOCATE FOR HOUSING, I SHARE YOUR DEEP CONCERN FOR THE ESCALATING HOUSING CRISIS IN THIS NATION. THE ALARMING INCREASE IN HOMELESSNESS IN RURAL AS WELL AS URBAN COUNTIES, THE DWINDLING SUPPLY OF FEDERALLY ASSISTED HOUSING, AND THE GROWING SCARCITY OF AFFORDABLE HOUSING ATTEST TO THE NEED TO REAFFIRM A NATIONAL COMMITMENT TO HOUSING AND COMMUNITY DEVELOPMENT. H.R. 4 REPRESENTS A SIGNIFICANT STEP TOWARDS THAT REAFFIRMATION.

COUNTY OFFICIALS WERE ALARMED LAST YEAR THAT CONGRESS FAILED TO PASS LEGISLATION REAUTHORIZING HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS. WE WERE CONCERNED THAT THIS FAILURE MADE THESE PROGRAMS MORE VULNERABLE TO REDUCTIONS IF NOT ELIMINATION AT A TIME WHEN THE NEED FOR THESE FEDERAL DEVELOPMENT TOOLS IS HEIGHTENED.

TO GREATER ENSURE THEIR CONTINUATION, THE NATION'S COUNTY OFFICIALS URGE THAT H.R. 4 BE AMENDED TO REAUTHORIZE COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG) FOR THREE YEARS. A MULTI-YEAR REAUTHORIZATION IS PARTICULARLY IMPORTANT FOR COUNTIES. AS YOU KNOW, IN ORDER TO QUALIFY FOR CDBG ENTITLEMENT FUNDS, URBAN COUNTIES MUST SECURE THREE YEAR COOPERATION AGREEMENTS WITH LOCAL GOVERNMENTS WITHIN THEIR JURISDICTIONS. THE ABILITY OF COUNTIES TO SECURE THREE YEAR AGREEMENTS INCREASES IF LOCAL GOVERNMENTS PERCEIVE THAT CDBG WILL BE IN EXISTENCE THROUGHOUT THE DURATION OF THE COOPERATION PERIOD.

COUNTY OFFICIALS ARE PLEASED THAT H.R. 4 CONTAINS AUTHORIZATION FUNDING LEVELS FOR HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS. AS YOU VERY WELL KNOW, THE ADMINISTRATION HAS MADE CONCERTED EFFORTS TO REDUCE OR ELIMINATE FUNDING FOR PROGRAMS ADMINISTERED BY THE FARMERS HOME ADMINISTRATION AND THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT. FUNDING FOR ASSISTED HOUSING ALREADY HAS BEEN CUT BY TWO-THIRDS SINCE 1981. WE FEEL THAT THE \$3.4 BILLION AUTHORIZATION LEVEL FOR CDBG IN H.R. 4 BEGINS TO RESTORE THIS PROGRAM TO ITS HISTORIC 1981 FUNDING LEVEL OF \$3.7 BILLION.

COUNTY OFFICIALS APPLAUD THE COMMITTEE'S REJECTION OF LEGISLATIVE REVISIONS IN CDBG THAT THE ADMINISTRATION ADVOCATES. AMONG THESE IS A PROPOSAL TO MAKE NEW CONSTRUCTION AN ELIGIBLE CDBG ACTIVITY. WE OPPOSE ANY NEW CDBG ELIGIBLE ACTIVITIES. THE ONLY INSTANCE IN WHICH WE MIGHT DIFFER FROM THIS POSITION WOULD BE IF ADDITIONAL FUNDING WERE APPROPRIATED IN AN AMOUNT COMMENSURATE WITH A NEW ACTIVITY. NEW CONSTRUCTION WOULD DIVERT FUNDS FROM CURRENT ACTIVITIES AT A TIME WHEN REQUESTS FOR CDBG ASSISTANCE FAR EXCEED AVAILABLE FUNDS. FURTHERMORE, MAKING NEW CONSTRUCTION AN ELIGIBLE CDBG ACTIVITY CANNOT SUBSTITUTE FOR CUTS IN PRODUCTION MONEY FOR PUBLIC HOUSING, FARMERS HOME ADMINISTRATION AND OTHER HOUSING DEVELOPMENT PROGRAMS.

NACO OPPOSES LEGISLATIVE PROPOSALS BEING CONSIDERED BY THE ADMINISTRATION TO TARGET CDBG FUNDS ON THE BASIS OF AVERAGE PER CAPITA GRANT. UNDER THIS SCHEME, AN URBAN COUNTY WOULD LOSE ITS ENTITLEMENT STATUS IF ITS CDBG GRANT IS LESS THAN HALF THE AVERAGE GRANT PER CAPITA. ROUGHLY HALF OF THE URBAN COUNTIES WOULD NO LONGER RECEIVE CDBG ENTITLEMENT FUNDS.

NACO OPPOSES THIS APPROACH FOR SEVERAL REASONS. WHILE IT WOULD BE EASY FOR HUD TO ELIMINATE ENTITLEMENT COMMUNITIES, A PER CAPITA APPROACH IN NO WAY MEASURES THE NEED FOR CDBG IN AFFECTED URBAN COUNTIES. FOR EXAMPLE, COOK COUNTY, ILLINOIS WOULD LOSE ENTITLEMENT STATUS, EVEN THOUGH 430,000 LOW-INCOME CITIZENS RESIDE IN THAT COUNTY. MORE IMPORTANTLY, A PER CAPITA FORMULA OVERLOOKS THE EXISTENCE OF POCKETS OF POVERTY IN URBAN COUNTIES AND THE TENACIOUS EFFORT OF COUNTY OFFICIALS TO DIRECT FUNDS TO THEIR CITIZENS WITH THE GREATEST NEED FOR COMMUNITY REVITALIZATION.

BALTIMORE COUNTY WOULD LOSE ITS ENTITLEMENT STATUS UNDER A PER CAPITA FORMULA. IN MY COUNTY, CDBG HAS BEEN USED TO REHABILITATE RENTAL AND OWNER-OCCUPIED LOW AND MODERATE INCOME HOUSING, TO CONSTRUCT CENTERS FOR THE HANDICAPPED AND SENIOR CITIZENS, AND TO PROVIDE GRANTS TO NONPROFIT ORGANIZATIONS TO WORK WITH BATTERED SPOUSES AND PROVIDE SHELTERS FOR THE HOMELESS. BALTIMORE COUNTY HAS USED CDBG TO MAKE PUBLIC WORKS IMPROVEMENTS IN AN ISOLATED TARGET AREA WITH A PARTICULARLY HIGH CONCENTRATION OF LOW AND MODERATE INCOME RESIDENTS. WATER AND SEWERS WERE PROVIDED FOR THIS AREA WHERE NONE PREVIOUSLY EXISTED ALONG WITH ROAD IMPROVEMENTS. COUNTY RESOURCES, ALONE, SIMPLY ARE NOT SUFFICIENT TO RESPOND TO THESE VERY BASIC COMMUNITY DEVELOPMENT NEEDS.

COMMUNITY DEVELOPMENT BLOCK GRANTS IS A HIGHLY TARGETED PROGRAM. HUD REPORTS CLEARLY DOCUMENT THAT 90 PERCENT OR MORE OF CDBG ENTITLEMENT FUNDS BENEFIT LOW AND MODERATE INCOME PEOPLE.

MACo IS CONCERNED ABOUT URBAN COUNTIES WHICH ARE THREATENED WITH LOSS OF THEIR ENTITLEMENT STATUS, BECAUSE CENTRAL CITIES WHICH NOW ARE PART OF THESE URBAN COUNTIES CAN NO LONGER ELECT TO DEFER THEIR ENTITLEMENT STATUS. IN 1983, HUD DETERMINED THAT SOME CITIES HAD BECOME CENTRAL CITIES ON THE BASIS OF 1980 CENSUS DATA. SAN JOAQUIN AND SONOMA COUNTIES IN CALIFORNIA, ST. CLAIR AND MADISON COUNTIES IN ILLINOIS, AND HUDSON COUNTY, NEW JERSEY WERE IN JEOPARDY OF LOSING THEIR ENTITLEMENT STATUS UNLESS PERMITTED TO INCLUDE NEWLY DESIGNATED CENTRAL CITIES IN ORDER TO MEET THE 200,000 POPULATION THRESHOLD. THESE COUNTIES WERE ABLE TO CONTINUE THEIR ENTITLEMENT STATUS, BECAUSE OF A SPECIAL PROVISION IN THE HOUSING AND URBAN-RURAL RECOVERY ACT OF 1983. THAT PROVISION ALLOWED NEWLY DESIGNATED CENTRAL CITIES TO DEFER THEIR ENTITLEMENT STATUS FOR THREE YEARS, 1984, 1985, AND 1986, SO THAT THEY COULD REMAIN WITH THE URBAN COUNTY.

THESE COUNTIES NOW FACE A SIMILAR SITUATION OF NOT HAVING THE REQUIRED 200,000 MINIMUM UNLESS PERMITTED TO COUNT THE POPULATION OF THEIR CENTRAL CITIES. EVEN IF THE COUNTY'S POPULATION EXCEEDS 200,000, SOME CENTRAL CITIES HAVE INDICATED THAT THEY WOULD LIKE TO CONTINUE TO PARTICIPATE UNDER THE URBAN COUNTY CDBG PROGRAM. MACo WILL WORK WITH THIS COMMITTEE TO MAKE PERMANENT, INSTEAD OF TIME-BOUND, THE PROVISION PERMITTING A CENTRAL CITY TO DEFER ITS ENTITLEMENT STATUS AS LONG AS IT CONTINUES TO HAVE ITS POPULATION INCLUDED IN THE URBAN COUNTY.

THERE IS A FINAL ISSUE I WOULD LIKE TO ADDRESS WITH RESPECT TO THE CDBG PROGRAM. URBAN COUNTIES ARE FACED WITH MEETING A THRESHOLD POPULATION OF 200,000 WHICH IS LARGELY DEPENDENT ON THE COOPERATION OF A NUMBER OF LOCAL UNITS OF GOVERNMENT. THE THREE YEAR OPT-IN PERIOD IS HELPFUL. HOWEVER, COUNTIES ARE STILL FACED WITH THE POLITICAL PROBLEM OF SOLICITING PARTICIPATION FROM CITIES, TOWNS, AND TOWNSHIPS WHILE AT THE SAME TIME EXPECTED TO DEVELOP A TARGETED PROGRAM WHICH MAY SERVE ONLY A PORTION OF THE COUNTY.

WE FEEL THAT THE QUALIFICATION PROCESS SHOULD BE SEPARATED FROM THE FUNDING PROCESS. UNDER THESE CONDITIONS, COUNTIES WOULD AUTOMATICALLY QUALIFY FOR CDBG, IF THEY HAVE A POPULATION OF 200,000 OUTSIDE ANY METROPOLITAN CITY. FUNDING LEVELS WOULD BE DETERMINED SEPARATELY BASED ON THE NUMBER OF COOPERATING JURISDICTIONS AND THE POPULATION OF THE UNINCORPORATED AREA.

MR. CHAIRMAN, WE SUPPORT CHANGES IN THE URBAN DEVELOPMENT ACTION GRANTS SELECTION CRITERIA AS CONTAINED IN H.R. 4. WE ALSO SUPPORT THE PROVISIONS TO PROVIDE SHELTER FOR THE HOMELESS AND THE EXPANSION OF THESE PROVISIONS IN H.R. 558.

THE 1987 LEGISLATIVE CONFERENCE OF THE NATIONAL ASSOCIATION OF COUNTIES BEGINS THIS WEEKEND. THE COMMUNITY DEVELOPMENT STEERING COMMITTEE WILL MEET DURING OUR CONFERENCE. THAT POLICY MAKING BODY WILL DRAFT RESOLUTIONS WHICH ADDRESS PROVISIONS IN H.R. 4. WE LOOK FORWARD TO WORKING WITH THIS COMMITTEE AND WILL SHARE ANY RESOLUTIONS WE ADOPT.



NATIONAL HOUSING CONFERENCE, INC. 

STATEMENT
OF
THE NATIONAL HOUSING CONFERENCE
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

March 12, 1987

Mr. Chairman and members of the Subcommittee, my name is John Simon. I am President of the National Housing Conference, the oldest national organization concerned with the provision of adequate housing and decent neighborhoods for all Americans.

We appreciate the opportunity to appear before the Subcommittee today and to present our comments on H.R. 4, the proposed Housing and Community Development Act of 1987. First, however, I should like to congratulate the Subcommittee for moving promptly, once again this year, on Housing legislation. The failure of the 99th Congress to enact any Housing bill, other than meager, minimal extensions in conjunction with appropriations legislation, bordered on the scandalous.

The Federal Government's disregard over the past several years of the housing needs of the American people is now bearing its unfortunate fruit the homelessness problem, with people on the street with no where to sleep, is ever more apparent the lack of affordable and decent housing for the low income continues to grow ever worse; and, despite the lowest mortgage interest rates in 8 years, homeownership is still an elusive goal for too many Americans, especially young families

There are many reasons for these problems, including, of course an Administration which feels that -- if we only leave it to the market, everyone will have a roof over their heads. That is probably true, as long as there is no concern as to whether that roof leaks or will fall in upon those it is covering, or as long as one has no concern whether there is any money left, after paying for that roof, for food, clothing, and the other essentials of life.

Congress, too, has contributed to this state of events by failing to maintain for housing the sense of priority and eminence that had been present for most of the three decades preceding this one. There has been no free-standing housing legislation passed by the Congress since 1980. Much of the legislation that has passed has been retrogressive and paltry.

While a Housing bill was once considered one of the major legislative issues of each session of each Congress, many present Members of the Congress have served without ever

having an opportunity to vote to send a Housing bill to the President. It is essential, therefore, that housing, and the essential human needs it serves, become once again a matter of high concern for the Congress and the American people.

This Subcommittee showed its recognition of the importance of moving forward to meet the nation's housing and community development needs during the 99th Congress when it approved in June, 1985, H.R. 1. Unfortunately, despite H.R. 1's passage by the House in one form or another on several occasions in 1985 and 1986, only minimal extensions and appropriations legislation ever became law.

H.R. 4 contains many of the proposals that had been contained in H.R. 1 in the 99th Congress. It thus represents a continuation of the effort to enact legislation needed to maintain the various housing and community development programs of HUD and FmHA. In addition, it would provide necessary authorizations for these programs for FY 1988 at modest levels. While it would break little new ground and then only on a modest scale, it is crucial that it be acted on as soon as possible. With the Senate Banking Committee marking up its Housing bill today the prospects for passage of a bill look the brightest they have in many years.

It is also very important that the questions of whether to maintain existing housing and community development programs, the level at which they should be funded and what new efforts are needed be first acted upon by the authorization committees and then presented to the Congress in an authorization bill. Too often of late, these important policy decisions have been left to the Budget and Appropriations Committees, where neither the expertise nor the procedures are present to give the decisions the attention they deserve. The tax committees also have taken on some of the role of proposing housing policy, a role they are totally unsuited to fill.

Much more needs to be done than would be accomplished by H.R. 4, even though it represents an important first step after the virtual desert of the past six years. We need to start examining what the real state of housing is; why it got into that state and devising means to restore, dealing with the Nation's housing needs, to a high level of priority.

We therefore, urge the Subcommittee, after completing action on H.R. 4, to undertake an extensive examination of the Nation's housing and community development needs and to advance, next year, major legislation dealing with those needs. The National Housing Conference would support such an effort and stands ready to work with the Subcommittee in helping to develop the type of legislative program needed to reaffirm the Nation's commitment to that goal, set out first in the Housing Act of 1949, of a decent home and a suitable living environment for every American.

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One of the crucial areas that needs to be addressed is how to maintain the present stock of low and moderate income housing. Much of that housing was originally assisted with a requirement that it be maintained for that purpose for a 20-year period and most Section 8 contracts are only for 15 or 20-year periods. The 20-year periods have begun to expire on 221(d)(3) below-market interest rate projects and these numbers will increase over the next several years and remain high through 2005, as the controls expire on 236 projects and Section 8 contracts expire. As a result, well over a million units could disappear from the stock of low and moderate income housing over the next 20 years.

While H.R. 4 contains some valuable proposals, it is doubtful that these proposals by themselves will be able to stay the flood of units that will be lost to low and moderate income families under present conditions. The bill, for instance, does not confront the unquestioned monetary issues involved in any significant effort to preserve the present stock of low and moderate income housing.

We at NHC are also very concerned about this situation. To look into how to preserve this present stock, I have appointed a Task Force whose members reflect the broad range of NHC's membership, including representatives of non-profit organizations, public housing authorities, builders, lenders, private owners of such housing, labor and state and local governments. We will be glad to share the Task Force's recommendations with the Subcommittee. I have also requested our counsel Carl Coan, to maintain a continuing liaison with the Subcommittee and its staff on the progress of the Task Force's deliberations.

I should like now to comment upon some of the particulars of H.R. 4 and, where appropriate, the Administration's housing legislative proposals this year, to the extent that we know them. Much of what is included in H.R. 4 is covered in NHC's policy positions of the last few years. However we are having our annual meeting in a week and a half, and there may be some changes at that time as well as an updating of our position on other matters. I should, therefore, like permission to submit to the Subcommittee later this month the text of the policy statement adopted at that meeting.

We basically support the various funding levels contained in H.R. 4 for the HUD and FmHA housing programs and for the Community Development Block Grant and UDAG programs, as representing relatively modest levels but ones which permit those programs to continue to operate effectively. In that context we therefore urge that you reject the Administration's proposals to terminate public housing production; the 202 program; Section 8 Moderate Rehabilitation assistance and Certificates; the 312 Rehabilitation Loan Program; the Housing Development Grant Program; the FmHA housing programs; the Urban Development Action Grant Program; and other miscellaneous HUD activities. We also urge you take such action as may be within your purview to prevent HUD from shifting funds for this fiscal year into next fiscal year, as proposed in its budget for public housing modernization and operating subsidies and for the 202 program. These so-called shifts are nothing more than the deferrals made ineffective by recent court decisions.

We strongly support the funding proposed in H.R. 4 for public housing production. We need a housing supply, not pieces of paper such as vouchers, to assure that there are places in which the Nation's low income can live in decency and at a cost that can be afforded. As I have indicated, in the next 20 years we face a potentially devastating loss of housing dedicated to the use of the low and moderate income. Public housing produced over the next few years will be an important offset to that loss. For the same reasons, we should maintain the 202 and Section 8 Moderate Rehabilitation programs as H.R. 4 would do. They both add units dedicated over the years to housing the low and moderate income; something no certificate or voucher program can do.

Similarly, we don't, over the long term, serve the need to maintain a reasonable supply of low-income housing by willy-nilly selling off our present public housing stock. While there is a certain surface appeal to enabling a present resident of public housing to become a homeowner one must remember that the purpose of creating that housing was to have a place available for those who cannot afford housing in the market place, with the tenant moving on to other, market-rate housing when his or her income is sufficient and thus freeing up that unit for someone else in need. Each public housing unit will serve on the average many tenants over the course of its useful life. Selling off those units, however, will mean that there will be no means at all of providing housing assistance to the low income of the future. If public housing is to be sold, that should only be allowed if there is a unit-for-unit replacement.

Assisting the lower income to become homeowners generally should be left to the programs designed for that purpose. The 235 program in urban areas and the FPHA 502 program in rural areas have been the two key means of providing such assistance. Both of these would be terminated by the Administration; we urge that both be maintained and funded at significant levels.

We realize that H.R. 4 contains a comprehensive provision permitting the sale of public housing units under certain circumstances to present tenants through resident management corporations. These are the same corporations which the bill would authorize to be assisted under an experiment to determine whether greater tenant participation in the management of public housing projects will yield positive benefits for the projects and their tenants. Such an experiment would seem to be the best way to determine the effectiveness of tenant management.

While we are very dubious about the wisdom of any significant sell-off to tenants of existing public housing units unless there is the type of one for one replacement that NHC's present policy calls for, the sales proposal contained in H.R. 4 is certainly much more protective of the nation's stock of low-income housing than that adopted on the floor of the House last June. At least the Federal Treasury would be protected against unjustified raids and speculative profits would be denied, unlike last year's provision.

One of H.R. 4's public housing provisions gives us considerable concern. This is the one which would sanction switching funding for public housing development from the tested and tried long-term financing approach to one of capital grants. We understand the Committee has taken this approach as a result of the aberrations of the Budget process, which, at least initially, places greater emphasis on budget authority than on outlays. At the modest development level contained in the bill, such an approach does not make too much difference. But if we were ever to attempt to return to more significant development levels, consistent with past years' program levels and present need, sole reliance on this new approach could be devastating to that effort.

Practically nobody pays cash up front for his house. Why should the public housing program? It is both normal and sensible to spread the cost of major capital investments over a reasonable number of years. And while there are, of course, carrying costs, those costs historically have been quite low for the public housing program, with its combination of tax-exempt financing backed by the full faith and credit of the United States Government. While we are aware that there has been no new, permanent tax-exempt financing put in place for public housing for many years, what initially started because of high interest rates has been continued because of the strong antipathy toward public housing that exists in OMB and Treasury. This attack by OMB and Treasury on public housing was rejected just a few years ago in the Housing and Urban-Rural Recovery Act of 1983. That action should be reaffirmed and the change to capital grants rejected.

We also support the bill's provisions which would enable the successful Nehemiah Program of New York City to be undertaken elsewhere. Where sufficient land is available, the Nehemiah Program should provide not only needed homeowner-ship opportunities for those of lower and moderate income but also stability to moderate-income neighborhoods and even contribute to their reclamation in some instances.

While NHC over the years has focused its major concerns and efforts on low-income housing we have always recognized that any efforts in that direction will only be successful if the rest of the population is able to obtain decent housing at affordable prices. Therefore we support the continuation of FHA as it is now constituted, without any arbitrary limits on who may obtain an FHA mortgage or the imposition of unnecessary fees and charges for the purpose of helping balance the budget or to push business in the direction of private mortgage insurance companies. On the same basis, we support continued strong secondary market operations through GNMA, FNMA, and FHLMC and urge the Subcommittee to resist the Administration's importuning for the imposition of unnecessary fees on those activities.

Decent housing cannot remain decent long without a decent neighborhood or in a community without economic opportunities. It has long been recognized that the environment

in which one's home exists is almost as important as that home. Thus, housing and community development assistance activities have been hooked in tandem as a Federal concern for over 30 years now. We support the continuation of a strong CDBG program and the continuation of the Urban Development Action Grant program to provide the economic muscle needed by the Nation's distressed communities if they are to become decent places in which to live and work.

We support the Fair Housing Initiatives Program proposed in H.R. 4, but we urge that rigid guidelines for the carrying out of testing activities not be set out in the legislation. The standards for such activities should be left to the more flexible approach possible under administrative regulations.

In closing, I should like to reiterate my commendation of the Subcommittee for moving forward to place housing, once again, high in the order of national priorities. We have a long way to go, but at last we are moving again.

Prepared Statement of
Barry Zigas
President
National Low Income Housing Coalition

On
H.R. 4
The Housing and Community Development Act of 1987

Before the
Subcommittee on Housing and Community Development
Committee on Banking, Finance, Urban Affairs
U.S. House of Representatives

March 12, 1987

Mr. Chairman, distinguished members of the Committee, my name is Barry Zigas. I am the President of the National Low Income Housing Coalition. The Coalition is a national, nonpartisan nonprofit organization whose members include low income tenants, organizers, advocates, and public and private producers and managers of low income housing.

Thank you for the opportunity to appear before you today to share our views on H.R. 4, the Housing and Community Development Act of 1987. I would like to cover the following areas in my testimony today:

1. The extent of the housing crisis facing low income people today and the need for greatly expanded federal assistance to help solve it.
2. Substantive comments on H.R. 4, with suggestions for changes which we believe would strengthen the bill.
3. Suggestions for additional initiatives which are necessary at this time but which are not covered in H.R. 4 in its current form. In particular, I will be discussing initiatives to strengthen the Community Development Block Grant program; initiatives needed to preserve the availability and affordability of existing federally assisted housing resources; and the need for a new program providing direct capital grant assistance to foster the acquisition, development and rehabilitation of housing for low income persons through support of nonprofit housing and community development organizations.

The Low Income Housing Crisis

Low income people face an unprecedented housing crisis. High rents, overcrowding, homelessness and displacement plague low income households throughout our cities and towns. Severe cutbacks in federal housing assistance funds have spelled disaster for millions of renters and owners. State and local governments are overwhelmed by the magnitude of the problem.

The 1983 Annual Housing Survey conducted by the Census Bureau for HUD found that 8.4 million renter households earned less than \$7,000, or a little more than 50 percent of the renter median income of \$12,900. A total of 91 percent of these renters paid more than 25 percent of their income for rent, and nearly 80 percent paid more than 35 percent of their income for rent. Over half of these households paid more than 60 percent of their income for rent.

Among renters with incomes below \$3,000 per year, the shortage of affordable housing is even more acute. A total of 86 percent of these 2.2 million households paid more than 60 percent of their income for rent in 1983.

These are the very lowest income tenants in America. Yet they are paying the highest rent burdens of any income group, either among owners or renters. And since 1970, their plight has worsened.

Independent analysis of the 1980 Census figures on housing by the Low Income Housing Information Service shows that by 1980, there were nearly twice as many low income renter households in need housing priced 25 percent of their income or less than there were units available at that price level to serve them. Only 10 years earlier, the Census figures show that while a gap existed, it was substantially less acute than it is today.

America has experienced an unprecedented loss of affordable housing stock during the decade of the 1970's. In 1970, there were almost 15 million housing units affordable to a household earning \$5,000 or less a year, by 1980 this number had dwindled to less than 3 million. The number of renter households with incomes of \$5,000 or less also shrank during this period, but only to about 6 million, leaving half as many units as families.

The Low Income Housing Information Service estimates that, on average, 500,000 low income housing units were lost every year during the 1970's, even after taking into account additions to the stock through new construction and rehabilitation.

The General Accounting Office of the U.S. Congress recently reported that while only 54 percent of all renter households with incomes below 80 percent of the median paid more than 30 percent of their income for rent in 1974 64 percent did so in 1983. The increase among renters with incomes below 50 percent of median was even more startling.

New research carried out by the Harvard-MIT Joint Center for Urban Studies shows that even in an area where Congress believed it had actually made progress over the last decades--improving the quality of the housing stock--there is growing evidence that we are losing ground. According to the Joint Center's analysis, the incidence of dilapidated or substandard housing is once again on the increase. This is after decades of steady decline. Low income renters are now increasingly confronted with not only rents which are beyond any reasonable level, but for property which does not meet even minimal standards of decency.

In the last five years, this loss of affordable housing in the private sector has been coupled with a nearly 60 percent reduction in federal housing assistance funds. Moreover, almost the entire focus of federal housing assistance is now placed on subsidizing rents in existing housing, and limiting such assistance to rental units.

Finally the last few years have witnessed the growth of another threat to the already meager resources available to low income people. Through a combination of tax laws, administrative decisions, and local economics many housing projects originally subsidized by the federal government for occupancy by low income tenants are threatened with sales and conversions which will remove them from the inventory of affordable housing. These transfers will almost certainly lead to widespread displacement of low income tenants.

H.R. 4

Over the last month, the National Low Income Housing Coalition's Board has carried out an extensive review and analysis of H.R. 4. The following comments are based on that consultation, and reflect the combined expertise of our Board members, who include low income housing tenants, state and local program administrators, and advocates from housing and other fields.

Title I: Shelter assistance for homeless and displaced

These initiatives to provide special assistance for the homeless and displaced are important and necessary. However, we believe it is critical to emphasize that the overwhelming problem facing the homeless today is the lack of affordable housing in either the public or private sectors. This is especially true for homeless families. Families make up the single fastest growing segment of the homeless population. More than any other group, they are victims of the federal government's callous retreat from adequate federal support for affordable housing. Driven from their homes because of exorbitant rents, or involuntary displacement, these families should not be content with additional shelters, be they emergency or transitional. Neither should the Congress.

While H.R. 4 provides a substantial increase in authorizations over FY87 levels, they are still totally inadequate to meet the growing needs which are fueling the homelessness crisis. These new programs, while commendable, will not solve the homelessness crisis. Nor should they be promoted as anything but an interim solution to help families get back on their feet. Congress must redouble its commitment to the national goal of a decent home for all Americans before the homeless will have a real chance at real shelter opportunities.

Specifically, we have a number of suggested changes to these provisions to increase their usefulness. The proposal would require nonprofits receiving grants under Section 103 to continue to make this housing available to homeless or low income persons for at least 10 years in order for the loans to be forgiven. We urge the Committee to extend this requirement to 20 years, or the useful life of the structure, whichever is greater. This requirement is more consistent with requirements imposed on other low income housing providers. As we have seen in the Section 236, FmHA Section 15, and Section 221(d)(3)(BMR) programs, even 20 years is an inadequate safeguard against the eventual loss of affordable units for low income people.

In the provisions which require rents in the Section 103 housing to be limited to those permitted under Section 8, we urge that the Committee include additional language either in the statute or the Report clarifying that sponsors may not deny housing to any person because they have no income.

In Section 104, we have received comments from some shelter providers who are concerned that the Community Development Block Grant allocation formula does not bear much relationship to the incidence of homelessness throughout the country. In particular, the CDBG formula is particularly sensitive to infrastructure-related indices of age or distress. Homelessness however, does not necessarily bear any relationship to such allocation measures. More critical factors in determining how to allocate these funds may

include employment and vacancy rates, and housing costs. The Committee should consider whether other factors should be included in the allocation structure, particularly considering how little total funding is actually being made available.

Also in Section 104, the statute would permit state and local governments receiving grants to distribute funds to nonprofit organizations to operate programs. However, it does not require this. The statute should place an absolute priority on such distribution. States should not be encouraged to set up their own shelter programs when competent nonprofits already exist and are struggling with overburdened shelters and programs. We urge you to add language which makes it clear that these funds must be spent in the first instance through distribution to qualified nonprofit providers.

Again, in the Section 104 certification section, sponsors are required to maintain the properties for low income use for at least 10 or 15 years, depending on whether they were renovated with program funds. This should be changed to 20 years or the useful life of the structure, whichever is greater, and should require such shelters to be converted to other low income uses if the need for homeless shelter passes during that time.

The proposed statute defines "lower income persons" eligible for assistance under these provisions as those with incomes below 80 percent of the area median. This should be changed to limit such assistance to those with incomes below 50 percent of the area median. With only \$100 million being devoted to this program, sponsors should be required to serve those most in need and with the lowest incomes first.

Title II: Housing Assistance

Housing Authorizations

H.R. provides authorizations for 105,000 units of assisted housing in the coming year. While an improvement over the Administration's request for only 80,000 units, this is still totally inadequate. In order to provide assistance over the next 10 years to all the very low income households eligible for but not now receiving it, Congress should commit itself to provide at least 750,000 new unit reservations per year.

Tenant Rents

We strongly support the provision in Section 202 which would phase in rent increases where the cause is increased income earned by tenants. The statute would leave this up to the PHAs option. This provision should be mandatory and require PHAs to phase in rent increases. We urge you to change the language accordingly:

These provisions also would permit PHAs to establish ceiling rents in public housing. The National Low Income Housing Coalition's Board has chosen not to endorse or oppose this provision. Imposition of such rents does create an inequity among tenants, in that some are paying a full 30 percent of their income for rent, while others presumably those with higher incomes would have their rents capped and thus pay less than their incomes than those less fortunate. Encouraging higher income tenants to remain in public housing by capping their rents may foster better tenant leadership as proponents have argued. However, it also works to discourage such tenants from seeking housing in the private market and freeing up a scarce, affordable housing resource for a very low income renter. On the other hand, rent increases imposed in 1981 have already substantially increased some tenants' rents. Forcing tenants whose incomes are still below the median to compete in the private housing market in many jurisdictions is a cruel joke.

The dilemma of ceiling rents and the ridiculous discussions which they engender-- discussions about dividing an inadequate resource among a multitude of people in need-- highlight the underlying issue: the total inadequacy of the current and projected supply of affordable rental housing for low income people. Until Congress faces this issue squarely and honestly, it will continue to drag itself through debates over issues like ceiling rents. These are discussions with no satisfactory solution which it tenants against tenants, management against tenants, and ultimately weaken support for the very programs we most need to expand.

Income Eligibility

Section 203 would alter current law to permit up to 25 percent of all assisted housing units to be rented to tenants whose incomes are not below 50 percent of the area median.

We strongly oppose this change. The need for housing assistance among the very lowest income renters is clear. Families at 50 percent of the median are not, as critics often

charge, families on welfare. Overall, families would qualify for this category with incomes of \$13 000 per year. This itself is about the national median income for all renters. It is not a difficult or onerous standard to meet. This Committee should strike this section entirely. Once again, if the Congress is prepared to provide sufficient assistance to meet the needs of all very low income renters, then we will support additional assistance to those with higher incomes.

Public Housing Amendments

Section 211 references voluntary professional performance standards as a guide to treatment by HUD in qualifying for certain program advantages. We support the intention of this section, but urge the adoption of additional language to require that such voluntary standards be established not only by the public housing "industry", but with the full participation of representatives of tenants and other public parties with an interest in the management of public housing.

Section 21 authorizing development grants should be expanded to include specific language reaffirming that public housing is a major means of providing affordable rental housing for very low income persons. This section should explicitly state that it is Congress intent to increase the supply of such housing through acquisition, development, and rehabilitation of housing through the public housing development grant program. The Congress should state its clear direction to HUD that these programs will be expanded from their current sorry levels.

H. states that development grants will be restricted to amounts not in excess of those needed to provide similar units for similar families through acquisition and rehabilitation or through lease arrangements in existing stock. This highlighted language should be stricken altogether. This is an inappropriate test to apply to development program. This section should make it clear the development of new assisted housing resources has an equal priority with the rehabilitation of existing resources.

Section 21 lays out a series of tests which must be met before the HUD Secretary can approve a public housing development grant. As currently written it appears that a PHA would have to meet each one of these tests concurrently. These sections should be rewritten to clarify that PHA which meets any one of the tests qualifies for development grant funding. Furthermore, we oppose the specific language requiring that at least 85 percent of the PHAs stock be maintained to standards. Instead, we suggest language which would require HUD to deny development funds to any PHA which "cannot be reasonably expected to perform adequately. Finally the last subsection should be amended to strike the language referring to Section 8 Certificates or Vouchers. Instead, PHAs should be required to document this need "by assessing the needs for housing in the community, with particular attention to families and their special needs, and after taking into account such factors as the waiting lists for public housing, failure rates among recipients of Section 8 Certificates and Vouchers, and the community's Housing Assistance Plan

We support the Child Care Demonstration program. However, we have received comments from some members concerned that the requirement that allocations be based in part on creating the greatest number projects with the available funds will discriminate against some states which regulate the child care profession. In California, for instance, state regulations require -4 teacher student ratio. This could bias determinations against such a state, to the detriment of the tenants living there.

Public Housing Demolition and Disposition

Section 219 should be amended to include specific language stating that "the demolition of public housing units may be undertaken only as a last resort, when all other remedies have failed or been proven infeasible."

Section 219(a) (A)(i) excuses PHAs from the one-for-one replacement requirement if the Secretary determines there is not need for low income housing based on a series of issues. This test should be broadened to include the consideration of waiting lists for public housing assistance in the jurisdiction, the availability of assisted housing resources for all those eligible for and desiring to receive it, and the estimated length of time eligible tenants must wait before receiving assistance.

Subsection (A) (ii) should be amended to require that the substitution of Section 8 or other comparable state or local resources must be for a period of at least 40 years, not 15 years, as required in the current language. This would provide assistance more nearly comparable to public housing.

Subsection (B) should be changed to specifically provide tenants with a right to replacement housing at rents which are the same as those in the units from which they are displaced.

The National Low Income Housing Coalition also urges the Committee to adopt language which would prohibit the payment of operating subsidies to any PHA for a unit which remains vacant for a period of more than 60 days. Too many of our members have reported housing authorities which are carrying out demolition and disposition of public housing through planned vacancies. Properties are emptied out, maintenance is not carried out and properties deteriorate. PHAs finally broach demolition as the "only feasible option." Landlords in Section housing are only provided their subsidies for the initial vacancy period. PHAs should be able to meet the same standards.

Modernization Grants

Section 220 should be amended to provide a priority in CIAP funding to repairing units which have life-threatening conditions.

We commend the Committee for adding language to this section which requires certifications of adequate public and tenant participation in the development of comprehensive modernization applications, amendments and annual reports. These provisions were first suggested by the Coalition last year in H.R. , and we are grateful to the Committee and members for adopting our recommendations. We urge you to make one change in these sections to clarify that the same requirements also apply to housing operated by Indian Housing Authorities. These sections should be amplified to specify that all required consultations must take place with "tenants of Indian Housing Authority projects" where the units are operated by tribal PHAs.

The HUD review and approval procedure should be amended to provide the Secretary with the ability to conditionally approve grants.

Resident Management Corporations

We support the general thrust of the resident management program outlined in the bill. We are especially pleased to see that the resident management program has been changed in H.R. 4 to include protections for employees covered by collective bargaining agreements.

We must oppose the provisions in this program which would permit RMCs to request waivers from regulatory requirements governing PHAs. Waivers from regulations are not any more desirable or justified when requested by RMCs than by PHAs or private management companies. The Administrative Procedures Act provides a way for tenants, PHAs or anyone else to petition for a change in regulations. There is no justification for special waiver provisions. They could lead to an erosion of national guidelines in the administration of the program. At worst they could lead to the elimination of important protections gained by tenants over many long years of struggles to obtain basic rights. We urge the Committee to strike the entire section dealing with waivers. If the waiver provisions are kept in, we urge you to add language which makes it clear that no waivers may be granted to any provisions pertaining to lease and grievance procedures which apply to tenants in public housing.

Section 221(g) should be amended to require each RMC to submit an annual report to HUD, and to require such a report to be circulated for review and comment by the project tenants prior to its completion and submission to HUD, and that all comments received during this process must be submitted to HUD along with the report.

Public Housing Homeownership

The National Low Income Housing Coalition continues to oppose the use of valuable public housing rental stock for homeownership opportunity programs. If the Congress truly believes that low income people need the opportunity to become homeowners--and NLHC supports this general goal--then the Congress should adopt a program which provides sufficient resources to carry out such a program in a way that will expand rather than contract the overall availability of affordable, publicly owned and operated rental housing.

If Congress persists in using the public housing stock in a homeownership program, the proposal in H.R. 4 should require a one-for-one replacement program of the rental units, and should require PHAs to provide operating assistance for units in which prospective purchasers' incomes will not be sufficient to cover the costs of purchase and operations.

The Coalition is pleased at the changes which have been made to the homeownership program since H.R. 1 was debated in the House. In particular, the resale restrictions in H.R. 4 are especially good to see. We recommend that this section be expanded to require these restrictions to apply to any public housing which is sold, whether under this particular program or any other, including the existing program under Section 5(h) of the U.S. Housing Act of 1937, as amended.

Section 22(b) should be amended to make it clear that when an RMC purchases a single family unit which it then offers for sale, and the family in the unit chooses not to purchase, the tenant has an absolute right to remain in tenancy under the terms and conditions of the public housing program. The section should make it clear that HUD must in such cases provide sufficient assistance to permit the tenant to remain in that unit.

Section 8 Assistance

We strongly support the provisions of Section 231 which would require all Section 8 Certificates to carry a full 5-year contract term.

We urge the Committee to adopt a new provision in this section which would permit public housing agencies to set aside up to 25 percent of their Section 8 Certificates for use in specified properties which are eligible for the low income housing tax credit, or which are being developed as limited equity low income housing cooperatives. This assignment would enable the development of such properties with the assurance of an adequate income through the Section 8 program to serve very low income households.

Rental Rehabilitation Grants

We urge the Committee to amend the Rental Rehabilitation Grant program in Section 238 to require rents in these units to be restricted so they are affordable over time to low income tenants. With the adoption of the low income housing tax credit last year in the Tax Reform Act of 1987 the principle of restricting rents to an affordable amount to ensure their benefit to low income renters was firmly fixed in the Internal Revenue Code. The Banking Committee should ensure that the programs it authorizes provide the same protection for tenants.

Prepayment Notification

Section 24 adds an important protection for tenants in HUD-insured and subsidized properties who are threatened with displacement because of prepayments of the mortgages by private owners. We suggest modifying this language to specify that the notification must be provided at least 6 months prior to the earliest date on which a prepayment could be made and to require HUD to notify the appropriate state and local agencies of such a notice within 30 days of its receipt. The statute should further require state and local agencies to ensure that nonprofit organizations which are capable making such an offer are notified in a timely manner of the owner's intention to sell. The section should include some requirement for the length of time during which the right of first refusal applies. Under the current language, such a right could theoretically be extended for only a token, minimal amount of time. Nonprofits need sufficient time to generate a realistic proposal for the purchase of such properties in order to make this provision effective. The statute should make it clear that tenant organizations and cooperatives are included in the definition of nonprofit organization for purposes of the right of first refusal.

We have additional comments regarding the displacement threat from existing housing because of prepayments which I will summarize later.

Management and Preservation of HUD-Owned Stock

Section 242 should be expanded with language which requires HUD to give a priority to bids which pledge to extend the low income use of the property beyond the minimum term required when selling properties.

Multifamily Preservation Loans

NLIHC supports the multifamily preservation loan program. We urge the Committee to add language which would require owners receiving such loans to agree to maintain the property's low income character for the greater of 20 years or the remaining life of the mortgage.

The language in Section 264(b)(9) should be altered to state that "such loan will be less costly to the Federal Government than other reasonable alternatives available to the

Secretary for maintaining the low- and moderate-income character of such project for an equivalent period of time." This additional highlighted language will require such an evaluation to be made between "apples and apples."

Section 202 housing

Section 281 should amend the Section 202 housing program to clarify that it can be used to provide single room occupancy (SRO) housing.

Aliens in assisted housing

The National Low Income Housing Coalition urges the Committee to reject these amendments and to repeal Section 214 of the Housing and Community Development Act of 1980 altogether.

Preventing fraud and abuse

The provisions of Section 287 concerning fraud and abuse should be expanded to include specific language providing tenants with a fair hearing and due process procedure where allegations of fraud or abuse are made.

Annual Report to Congress

Section 289 should be amended to require HUD to resume publication of the Annual Housing Goals report.

HUD-IHS Demonstration

We strongly support this important demonstration program first proposed by Rep. McKinney. We also support amendments which we understand he will offer during mark-up which would permit the use of IHS funds to prevent homelessness by families facing eviction because they are unable to pay their rent.

Community Development Block Grants

Section 503 appears to repeal a provision which now requires CDBG grantees to include in their annual statements a summary of the past year's activities. We cannot understand why the Congress would want to eliminate this requirement, especially without replacing it with anything similar. We oppose this provision and urge the Committee to remove it.

We also oppose Section 506, which would provide a limited expansion of the CDBG program to permit new construction of housing.

I have a series of comments about the CDBG program which I will summarize in a later section.

Urban Development Action Grants

Section 509 should be expanded to require that citizen review and comment procedures be extended to the use by grantees of UDAG repayments.

Fair Housing Initiatives Program

We strongly support the authorization of the Fair Housing Initiatives program. However, we oppose the limitations placed on the use of these funds in so-called "testing" programs. These restrictions should be eliminated from the program.

Nehemiah Housing Opportunity Grants

The targeting requirements of Section 605 should be changed to restrict these funds to households with incomes at or below 90 percent of the area median. In addition, the requirement that families make at least a 10 percent downpayment in the program should be replaced by a provision which states that sponsors may not require participants to make a downpayment which would prevent otherwise eligible borrowers from participating in the program. FHA insurance programs do not require such hefty downpayments by buyers. It is hard to see how Nehemiah would truly serve low and moderate income buyers with stricter downpayment requirements than FHA asks of middle income purchasers.

We also suggest the elimination of the minimum participation requirements in Section 606.

Additional InitiativesCommunity Development Block Grants

Over the last two years, the NLIHC has been actively participating with grass-roots organizations throughout the country to support the continued authorization and full funding of the Community Development Block Grant program. We have done so because we believe, and experience shows, that this program is one of the most vital means of supporting community-based development for low income communities. We have consistently fought proposals to rescind funding for this program, and fully support its reauthorization.

However we have also found in working with groups throughout the country that the local administration of the CDBG program can leave much to be desired. In many communities, the congressional expectation that these funds would be used principally to benefit low income people is honored more in the breach than anywhere else. The economic development provisions of the statute, in particular, have been abused in many localities, providing an excuse for local governments to support commercial development in downtown areas without regard to providing job opportunities for low income people, or revitalization of neighborhoods.

Last year the NLIHC joined with others in supporting H.R. 4679, the Community Development Block Grant Improvement Act of 1986, sponsored by Rep. Farren J. Mitchell. This bill would have made certain changes to the CDBG program to prevent displacement of low income communities, enhance the use of economic development spending to provide low income persons with opportunities and economic growth, and specified that all CDBG funds must be used to benefit low income persons in the community.

Since then, the NLIHC has continued to work with a broadly based coalition of national and local organizations concerned with low income community development and preservation. We have refined our initial proposals, as contained in the Mitchell bill, and added some additional provisions developed through a lengthy consultation process throughout the country.

Our Coalition on Low Income Community Development has developed a five-part proposal which we believe would strengthen the CDBG program. We advocate the following changes:

- * Establish clear and tough anti-displacement requirements on the use of CDBG funds.
- * Re-establish the application and review requirements which governed the program prior to the Gramm-Latta budget reconciliation act.
- * Re-establish the citizen participation requirements which applied to the program prior to 1981.
- * Require grantees to prepare "Economic Development Plans" which assess the need for economic development and job opportunities among lower income residents, and lay out a plan and a program for addressing these needs through CDBG spending. Many of our members have found that locally funded economic development activity is often an untargeted subsidy for downtown development of any kind. It is often unresponsive to low income and neighborhood needs although it is routinely credited as a low income benefit, few cities if any can actually document how this benefit is achieved, or on what basis it is planned for and carried out.
- * Require that at least 51 percent of all CDBG funds be spent on activities which benefit very low income households with incomes below 50 percent of the area median income, and 00 percent of all CDBG funds be spent on activities which benefit low income households with incomes below 80 percent of the area median income.

With the continuing federal budget crisis caused by massive tax cuts and unreasonable military spending the pressure on our federal spending on vital domestic issues like community development is continuing. We fully support the continued funding of CDBG because we believe that it does operate in many communities to provide the only source of support for community-based housing and development strategies. In many other communities, however, these goals are not being realized. In discussions with members of both the House and Senate Budget Committees, we have been told again and again that CDBG is not going to be protected as a "low income benefit" program because the perception is that it does not qualify. This Committee has the opportunity and obligation to correct this problem, and to

ensure that all grantees are required to use these scarce funds in programs that directly benefit low income persons, do not contribute to displacement, and provide economic development benefits to low income persons and neighborhoods.

Mr. Chairman, I urge you to consider these changes and incorporate them into the bill considered during mark up of H.R. 4.

Community Based Supply Program

In June, 1984, the National Low Income Housing Coalition sponsored a major meeting in Washington, D.C., to help create a "people's housing program." A major result of this meeting was the development of a concept paper outlining what we dubbed "Community Based Housing Supply Program". The purpose of this program was to provide funds which would fulfill two related goals: the development and preservation of affordable housing for low and very low income persons, and support of such efforts by nonprofit organizations based in their communities. This is not the first time the NLHC has come before you to discuss this proposal. At the end of our 1984 conference, you opened up the legislative process to our citizen activists and conducted a full scale hearing on our findings. We shared our hopes for a Community Based Housing Supply Program then.

We have continued to work with nonprofit organizations to refine this proposal. We are working with members of the House and Senate to draft legislation to carry out these objectives. We will provide all members of the Committee with a detailed summary of this legislative initiative. I urge you, Mr. Chairman, to take this opportunity to adopt this innovative program now, and provide a new source of funding which these community based nonprofit organizations can use to help alleviate the low income housing crisis.

Action on this program is particularly important this year in light of the Tax Reform Act of 1986. With the strong support of the NLHC, Congress last year adopted a new low income housing tax credit as part of the tax legislation. This new initiative received the strong support of the Chairman, the Ranking Minority Member, and many other members of this Committee, for which we thank you. Now that the tax credits are law, it is clear that a substantial part of the resources made available through this new effort will be used by nonprofit organizations. In fact, at least 10 percent of all tax credits must be allocated to projects sponsored by nonprofit organizations.

The Community Based Housing Supply Program would provide a major means of ensuring that community-based nonprofits can take full advantage of the tax credit benefits. It would help support a major element in the low income housing economy which does not compete well within other, established programs such as HUDAG, or UDBG. Nonprofits typically cannot invest the time or staff necessary to compete for funds at the national level against well financed private concerns. They often undertake very small scale projects designed to serve existing neighborhood needs. Although vital, such small scale projects do not offer the same attractive terms that very large projects proposed by private concerns do. This is equally true at local, state and federal levels.

Mr. Chairman, we are committed to this program as a major new initiative. I hope we can count on your support for this effort, and hope you will incorporate its provisions in the Subcommittee's next version of H.R. 4.

Housing Preservation

Mr. Chairman, one of the most pressing issues facing this Committee in the next two years will be the potential loss of hundreds of thousands of subsidized housing units from the current inventory of government assisted housing.

The threat of displacement from privately and publicly owned, government subsidized housing is enormous. The General Accounting Office (GAO) estimated in recent reports to the U.S. Congress that as many as 900,000 units of privately owned and federally subsidized housing could be lost in the next ten years. They further estimated that by the year 2005, a total of as many as 1.7 million units could be lost. This represents about two-fifths of the total federally assisted housing inventory in 1986.

In the Section 8 program, displacement can be caused by the simple refusal of the project owner to renew the Section 8 contracts with HUD. Originally, Section 8 owners could renew these contracts at five year intervals, for a maximum of 20 years. Owners of projects which received commitments for Section 8 assistance after December 31, 1979, were required to agree to 15- or 20-year contract terms. In both cases, the expiration of these contracts permits owners to convert the assisted units to market rate rentals without any further government involvement.

Among properties which have received Section 8 assistance as part of a strategy to preserve housing produced under the earlier mortgage insurance programs, Section 8 contracts have always been provided with only 5-year contracts. The expiration of such contracts and the owners' refusal to renew them could lead to the same displacement threat.

Public housing too is threatened by federal and local policies of neglect, abandonment, and disposition. Although thousands of families are on public housing authority waiting lists in city after city HUD is being asked for permission to tear down desperately needed public housing resources. In city after city units are being abandoned and left vacant, often with the intention of allowing the units to deteriorate to the point where demolition or sale for conversion appear as the only feasible alternatives.

In this regard, we continue to oppose efforts to use the existing public housing stock in homeownership demonstrations unless such a program is accompanied by an iron-clad commitment by the Congress to force the Administration to replace each and every unit sold with a comparable new, rehabilitated or acquired rental unit which will continue to serve very low income renters. H.R. 4 contains provisions for a homeownership demonstration which address many of the concerns we have voiced over this effort in the past. It does not, however, require one-for-one replacement of the ownership units with rental units. For the overwhelming majority of very low income tenants, rental property is an essential and unmet need. We should not be encouraging the conversion of what little publicly owned low rent stock we now have when faced with the current low income housing crisis.

If these displacements take place, the tenants will have few options. The median income of all tenants in public housing and Section 8 units was just over \$6,000 per year in 1983, according to the U.S. Census Bureau. This was about one-third of the national median household income in the same year.

These households are among the "privileged few" very low income renter households by dint of their participation in the federal assistance programs. Section 8 and public housing tenants pay no more than 30 percent of their adjusted income. Tenants in privately owned housing subsidized through the National Housing Act programs (Sec. 221(d)(3), Sec. 236) pay rents which are reduced to reflect the owner's lower interest rate, and rents in these properties are regulated by HUD.

In the general rental market, at least half the renter families with incomes at this level pay more than half their income for rent.

We have advocated in the past a moratorium on any sales, transfers or contract cancellations which would lead to any reduction in the number of federally assisted units available to low and very low income tenants at affordable rents. As the Congress grapples with the crisis of homelessness by trying to provide new assistance to those already made homeless, it is senseless to risk losing already affordable stock and creating homeless very low income people who are already protected through participation in subsidy programs.

Beyond such a short-term step to prevent immediate displacement, Congress should undertake a thorough examination of this problem. Areas that should be considered include changes to the tax law to encourage sales of privately owned properties serving low income people to tenants, or to nonprofit organizations which agree to maintain the properties for affordable low income use; requirements that owners offer such properties to such groups and concomitant federal assistance to assure that such sales can be consummated without causing rent hikes or displacement; establishment of a "profit sharing plan" requiring owners who prepay mortgages and convert them to non-low income use to turn over a share of their receipts in excess of the remaining mortgage balance, the proceeds from which would be used to assist displaced tenants with replacement housing and relocation assistance, and help prevent deterioration in units which remain in the low income inventory; and establishment of a special, nationally financed "Housing Preservation Trust Fund" to guarantee the government's continuing ability to carry out the trust it has with low income tenants now receiving assistance and protect them from displacement and homelessness.

Thank you again Mr. Chairman, for the opportunity to share our views on H.R. 4. I will be happy to answer any questions you may have at this time.

**STATEMENT
OF THE
NATIONAL HOUSING LAW PROJECT**

BEFORE THE

**SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES**

MARCH 12, 1987

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INTRODUCTION

On behalf of our very low income clients who are in need of decent, affordable housing the National Housing Law Project appreciates the opportunity to present to the Subcommittee, upon your request, our views on this year's housing legislation. As in 1985 when we came before you, we reaffirm our views that

(1) adequate funds should be authorized to continue the historic pattern of gradually expanding the number of households who participate in the federally subsidized housing programs;

(2) steps must be taken to guarantee the preservation of the vitally needed housing which we currently have;

(3) the unfair shift of the cost of the federal housing programs to the tenants that has occurred during the past four years should be reversed; and

(4) the rights of federally subsidized tenants should be strengthened.

In addition, the burgeoning number of homeless families/individuals could and should be minimized through preventive measures well within this committee's jurisdiction. We have provided the subcommittee staff with statutory recommendations to implement several of these provisions.

The chairman is to be commended for proposing an increase of budget authority for assisted housing in this bill. H.R. 4 provides funds for public housing development, Section 8 Existing and Moderate Rehabilitation and Section 202 units, whereas the Administration proposes to meet the housing needs of the poor with "housing stamps" or vouchers which are in many markets, not worth the paper they are printed on. There is a critical need for additional units.

INCREASING THE SUPPLY

Public Housing Development

Section 213 of H.R. 4 however, proposes to limit the financing of new public housing units to PHAs which can certify that 85 percent of their existing units are physically maintained at levels equivalent to the Section 8 housing quality standards or will be so maintained upon completion of modernization. While these provisions represent a major improvement over the absolute prohibition against any public housing development as approved on the House floor last year we do not feel that this is the way to ensure that existing public housing units will be repaired. Adequate modernization funds are needed. Furthermore, tenants in need of housing and sponsors of small scale in-fill public housing should not be penalized for the design mistakes of the past.

PRESERVING EXISTING ASSISTED HOUSING

Public Housing Demolition/Disposition

We support the Committee's change in Section 219 which would prevent the demolition of obsolete public housing projects if such projects could be rehabilitated. At a time when few low

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income housing units are being added to the stock this seems a logical policy.

We also support Section 219's proposal of a one-for-one replacement by units with project-based rent subsidies for any unit approved for demolition or disposition. Section 8 certificates and vouchers are not adequate. This provision could be strengthened by requiring the Secretary to include the needs of those applying for assisted housing when making a determination of the need for replacement housing.

Vacant Units

Two years ago we testified on the need for legislative language to require public housing authorities to rent their vacant units. This need remains despite the promulgation of HUD's new vacancy regulation. At a time of record long waiting lists and increases in homelessness, it is totally unacceptable for PHAs to let their units sit empty. The longer such units stand idle, the greater the chances for vandalism and eventual demolition.

Multifamily Housing Preservation

We commend the Chairman for including the provisions of Sections 242-245 and 261-268 which will go a long way toward preserving and maintaining thousands of rental units financed under some of the earlier HUD programs (i.e., Section 236 and 221(d)(3)). As you know, the need for these amendments was dramatized by a series of hearings held in the last few years by the Employment and Housing Subcommittee of the Government Operations Committee, in which it was discovered that many units which could have been saved, were lost forever as low income housing. The multifamily preservation provisions which were included in H.R. 1 have been revisited several times and many of the changes contained in H.R. 4 were recommended by HUD itself.

In our February 9, 1987 letter to your staff we provided further clarification and suggested legislative language for several of these multifamily provisions. We would be happy to work with the Chairman and Congressman Frank to develop some acceptable language for this section.

Prepayments of HUD Loans and Mortgages

We are now approaching the time when many owners of multifamily projects subsidized under the HUD insurance programs may prepay their mortgages without any further agency approval. For most projects, this point is reached 20 years after original mortgage endorsement. For FmHA projects funded with pre-1979 loans, mortgages may presently be prepaid at any time (except during a nine month moratorium which was included in the 1987 Continuing Resolution. In most markets many low income families will not be able to afford to continue to reside in those units once they are prepaid. An increase in homelessness is likely.

To deal with this problem we recommend that Congress declare a temporary moratorium on prepayments of Section 221(d)(3) BMR projects. (If there are any Section 236 projects with use restrictions expiring during 1988 they should be added). Alternatively, owners proposing to prepay should be required to notify HUD a year in advance. Section 241(b) does address this issue but requires further refinement. Owners should be required to sell the project at fair market value to a qualified entity approved by HUD so that it will continue to serve low income families.

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Section 241(a) on the other hand, will stem the loss of units through premature prepayments during the period when HUD approval is required (usually during the first twenty years) and should be supported.

Section 8 "opt-outs"

Many owners of projects assisted with project-based Section 8 contracts (e.g., New Construction, Substantial Rehabilitation or Additional Assistance) are refusing to renew those contracts. This is accomplished by exercising the "opt-out" feature that is included in many pre 1980 contracts which permits owners to decide at the end of each five-year period whether they wish to continue with the program. Sometimes owners refuse to renew these contracts because the Section 8 contract rents have not been adjusted by HUD to keep pace with the actual returns available on the private rental market.

Legislation is needed to explicitly require HUD to adjust Section 8 contract rents in amounts that are necessary to provide owners with true fair market rentals (equivalent to the rent available to the owner without the Section 8 contract), adjusted on an annual basis. In addition, owners should be required to give HUD prior notice of their intent to opt out, and HUD should be required to review the owners' reasons to determine whether they are lawful and whether any steps can be taken to avoid the owners' withdrawal from the program. Finally, owners refusing to renew the contract should be required to sell the project at fair market value to a public or nonprofit entity that will remain in the Section 8 Program.

Fifteen Year Terms for Section 8 Existing and Loan Management

Present law does not specify the exact term of Section 8 Existing Housing ACCs. Section 231 of H.R. 4 would set a 15-year term for these contracts presently the statutory maximum, and a term that is commensurate with the length of the appropriation. This change is necessary to effectively prohibit HUD's present practice of using five-year ACCs and will forestall HUD's plans to refuse to renew the Section 8 contracts or convert those contracts to vouchers. Retaining units in the Section 8 Program for longer periods of time is desirable because that program provides greater affordability protections for tenants than does the Voucher Program.

Section 237 of H.R. 4 would establish a similar 15-year term for Section 8 Loan Management contracts, those which are used to subsidize projects with HUD-insured mortgages that otherwise might experience financial difficulty. For reasons identical to those stated above, this is also a sound proposal.

There is one technical modification which should be made to both of these provisions. The statutory language should require the ACC or HAP contract to be for 15 years or the term of the appropriated budget authority whichever is shorter. That change would create the flexibility needed to solve the problem of expiring Section 8 Existing Housing and Loan Management appropriations in the most appropriate manner. If 5-year contracts are absolutely mandated, the budget authority needed to renew expiring appropriations, if run out for 15 years might be too costly. Shorter term budget authority may be needed to keep the cost of renewing expiring appropriations at an acceptable level. Creating that option still would not open a loophole for HUD to convert Section 8 units to vouchers.

Public Housing Homeownership

Because of the tremendous unmet need for affordable rental housing for very low-income families, any homeownership program that utilizes existing public housing units is a bad idea. This is especially true in view of the inevitable reduction in the low-income rental housing stock due to subsidized project prepayments, owner failures to renew Section 8 contracts, and expiring appropriations. Public housing represents the only stock of low-income rental housing that is not threatened with extinction and that, as currently structured, most likely will remain affordable to low-income families into the future. Because this stock should not be diminished by transferring units to a homeownership program, we oppose Section 221 of H.R. 4.

Expiring Appropriations

We are quickly approaching the time when thousands of low-income families may be faced with displacement as their long term subsidies expire. To our knowledge there is only one category of HUD-subsidized housing that will face the problem of expiring appropriations in FY 1988 and 1989 and that is the Section 8 loan management units funded in 1983 and 1984 with five year contracts. During FY '83, Section 8 loan management contracts were executed for 6,604 units and in FY '84 Congress provided 5,106 units. It is necessary to authorize budget authority for renewal of these contracts, that is in addition to that otherwise appropriated for new incremental units. Otherwise, these units will be lost to the lower-income housing inventory or funds intended to assist new families will be diverted from them to renew these contracts.

ASSURING EQUITABLE SHELTER COSTSUtility Costs

This committee is well aware that HUD in the last decade attempted to force public housing and Section 8 tenants to pay more and more of the utility costs for their apartments. The language proposed by Section 202(c)(2) will rectify the problem by specifying that rent must include a reasonable utility allowance based upon actual consumption. This language would also cure the additional related problem of PHAs imposing extra charges in addition to rent for the use of such necessary items as stoves and refrigerators. We support this change.

Adjustments to Income for Calculating Rents

Over the past several years, HUD has forced low-income tenants to pay an increasing share of their extremely low incomes for rent via a variety of direct and indirect tactics. Rents have been raised from 25 to 30 percent of income, PHAs have not calculated utility allowances correctly and existing adjustments to income prescribed by the statute are not adequate.

In 1970, HUD first established the "per dependent" deduction from gross income to be \$300, effective in March of 1971. That remained unchanged until 1983, when Congress established the deduction at \$480. From March of 1971 to the present, inflation measured by the CPI has increased the price level by 176 percent. If the 1971 level of \$300 were properly adjusted for inflation, the per-dependent deduction would now be \$828.

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To rectify this problem, the per-dependent deduction and other deductions in Section 3 b)(5) of the United States Housing Act should be indexed and the per-dependent deduction should be adjusted to \$800 to approximate its real original level. This charge will assist those tenants with the lowest incomes and focus scarce resources on those least able to pay.

Housing Subsidies as Income

In 1983 both the Senate and House versions of the housing bill prohibited treatment of certain housing subsidies as income for purposes of any federal law. S. 1338, § 303(f), 98th Cong., 1st Sess. (1983); H.R. 1 § 230, 98th Cong., 1st Sess. (1983). In the past, this Committee has been supported by the full Congress in its position that housing subsidies should not be treated as income for other welfare programs. That is true with housing subsidies and the Food Stamp Program (7 U.S.C. § 2014(d)(1)); housing subsidies and the SSI Program (Publ. L. No. 94-375, § 2(h), 90 Stat. 1068, noted at 42 U.S.C.A. § 1382 (West 1983)); Farmers Home Administration subsidies and all welfare programs (42 U.S.C. § 1490a a (1)(3)); and the Uniform Relocation Act replacement housing payments and all welfare programs (42 U.S.C. § 1436).

A housing subsidy does not create a financial windfall that should be taken away from the family through the welfare program. The very purpose of the housing subsidy is and always has been to provide decent housing which the family could not rent in the absence of the subsidy. Housing subsidies do not duplicate welfare grants. Instead they provide a supplement to such bare minimum income, in order to make available to poor people the decent housing which will increase their opportunities and their children's opportunities for decent lives.

Voucher Annual Adjustments

As Congress is aware, one of the primary reasons that HUD's Voucher Program appears cheaper for the government is the lack of an annual subsidy adjustment to ensure that the payment standard increases to reflect increases in general market rents. Presently, under the Voucher Program, the subsidy can be increased no more than two times during a five-year ACC, and even then the increase is discretionary with the PHA. Without an increase in the payment standard and a consequent subsidy increase, tenants pay the entire rent increase from their own pocket, making their rental contribution rise far above the 30-percent-of-adjusted-income standard. In contrast, under the Section 8 Program, when a landlord raises the rent to reflect inflation or market conditions, the subsidy is increased in accordance with an annual adjustment factor.

In recognition of this critical deficiency, Section 234(b) of H.R. 4 would properly amend the voucher statute to require an annual subsidy adjustment to ensure that the payment standard increases along with general market rents. By providing affordability protections similar to those available under other programs authorized by the United States Housing Act, this change, while not guaranteeing that tenants will pay only 30% of their income for housing, will help to ensure that the Voucher Program remains more affordable to tenants.

Public Housing Ceiling Rents

In our testimony on H.R. 1 in 1985 we opposed the idea of ceiling rents and if anything, the deepening of the housing crisis has caused us to even more adamantly oppose the concept in this bill. The same committee that advocates for increased assistance to the homeless cannot in good conscience support a provision which in essence will keep upper income families in public housing while those with lower incomes languish on waiting lists.

Ceiling rents benefit only the highest-income tenants. There is no justification for charging a tenant with an annual income of \$5,000, 30 percent of adjusted income for rent, if high-income tenants pay a much lower percentage. It is the poor tenants who do not have enough left over after paying 30 percent of their income for rent dollars to spend on the other necessities of life. In some cases, the lack of ceiling rents may force tenants from public housing because rents set at 30 percent of their incomes will not be as attractive as those on the private market. However, those tenants are middle-income tenants who can afford units on the private market and upon whom Congress should not be conferring scarce federal subsidies. Should they choose to move out when increases in their incomes cause the rents to go up to market levels, their units will go to very-low-income tenants most in need of subsidized housing.

Higher-income tenants should not be encouraged and subsidized to live in public housing. We do not have current data on incomes of tenants residing in public housing. HUD used to collect such information in its statistical yearbook but stopped in 1981. As of that time, HUD reported that households with incomes above 50 percent of the local area median occupied almost 100,000 public housing units.

More recent and graphic evidence of the use of public housing by higher-income families comes from HUD's Public Housing Homeownership Demonstration Program. Nine of the 14 public housing authorities fully approved for the program in 1985 established minimum incomes for eligibility which exceeds or equal \$12,000 per year and two of them have indicated that present tenants have annualized incomes as high as \$31,000 and \$37,000! See HUD, News Release: Secretary Pierce Selects 18 Public and Indian Housing Authorities to Initiate HUD's Public Housing Homeownership Demonstration (June 5, 1985). Tenants at these higher-income levels, i.e., above the national median income, should not be subsidized by paying a ceiling rent. As do the rest of the tenants in public housing, they should pay 30 percent of family income for rent.

ENSURING ACCESS FOR VERY LOW INCOME PERSONS

Targeting

Section 203 would also have the effect of reducing the number of assisted housing units available to the very low income. Under current law many PHAs/owners of assisted housing may bypass families with very low or no incomes in favor of those with higher earnings. In fact, in one case in Rhode Island, an AFDC mother who had been number one on the waiting list for a Section 8 project for five years was never given the opportunity to move into an available unit because she was too poor!

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Given the substantial reduction in incremental units, there is absolutely no justification for reducing the number of units available to the neediest, the very-low-income families. In fact, if anything Section 203 of H.R. 4 should amend Section 16 of the United States Housing Act to implement the existing limitations on a project-by-project basis and prevent irrational income discrimination against the neediest families on the waiting list. Maintaining and strengthening the targeting provisions of Section 16 would not exclude working families from subsidized housing, would not limit the provision of housing to welfare recipients, and would not even restrict housing to people with incomes below the poverty line.

Income limits at 50 percent of area median income will obviously vary in different geographical areas. Nationwide, the 1987 median income for a family of four is \$30,400, and 50 percent of that figure is \$15,200. In areas of unusually high income, such as San Francisco, Boston, and Los Angeles the 50-percent-of-median-income limits for a family of four for fiscal year 1986 exceeds \$18,000. In contrast, under the AFDC Program the 1987 maximum annualized payments (which also vary from state to state) range for a family of four from \$1,728 in Mississippi to \$9,996 in Alaska. The 1986 median annualized AFDC payment for a family of four is \$4,788. House Committee on Ways and Means, BACKGROUND MATERIAL AND DATA ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS 373-375 (Comm. Print March 3, 1986). For the Food Stamp Program, which has a nationwide income limit the 1986 maximum for a family of four was \$14,304. 51 Fed. Reg. 19,880 (June 3, 1986). To put these numbers in perspective, one has to remember that the 1986 poverty level for a family of four was \$11,000. 51 Fed. Reg. 5,106 (February 11, 1986).

We propose instead that all percentage limitations be removed and that very low income families be given a priority over other higher income eligible applicants unless there are no such families waiting to be admitted.

Nondiscrimination Against Section 8 Certificate and Voucher Holders

We support the concept behind Section 244(c). However, we believe it should be expanded to protect voucher holders as well as Section 8 certificate holders. In addition, in recognition of the shortage of housing available to tenants receiving portable subsidies, this proposal should be revised along the lines that HUD suggested in May of 1986 to extend the prohibition on discrimination beyond owners of the HUD-subsidized projects to owners of any HUD-insured project. We also urge that landlords of multifamily projects already participating in the Section 8 Program should not be permitted to discriminate against Section 8 certificate holders or voucher holders.

PRESERVING TENANTS' RIGHTS

Public Housing Grievance Procedure

In order to prevent unjust evictions from public housing (which only adds to the homeless problem) and to ensure that tenants have recourse when their housing authority is not implementing the programs properly, H.R. 4 must include changes to the grievance procedures. (42 U.S.C. § 1437d(k)) HUD's proposed regulations would limit grievable issues by creating an artificial distinction between actions and omissions, between affirmative actions and failures to act. Thus, HUD's proposed regulations have the absurd effect of excluding from the

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grievance process disputes regarding rent, if the tenant has asked for a rent reduction because of lower income, and the housing authority has failed to act; disputes about transfers, if the tenant has asked for a transfer and the housing authority has failed to act or has denied the request; and disputes about a PHA's failure to make repairs. There are many other examples of similar disputes that HUD would arbitrarily exclude from the grievance process.

In the compromise which produced the 1983 legislation, the grievance procedure requirement was amended to allow PHAs to exclude evictions. 42 U.S.C. § 1437d(k). This exception to the grievance procedure is unwise and unjustified on policy grounds.

Although on paper it would appear that the statutes and case law in most states might give tenants facing eviction a due process hearing, there is a wide divergence between the appearance of due process on paper and the reality of the eviction process in most state courts. We have documented that divergence in comments which we submitted to HUD in response to its 1982 regulatory proposal to repeal the grievance procedure altogether. Here we would like to reemphasize that our day-to-day work makes us repeatedly aware that public housing tenants facing eviction in state courts throughout the country do not receive adequate protections.

Because of these facts and because of the total absence of any credible demonstration by HUD or a PHA that a grievance procedure unfairly impairs the PHA's power to evict, and because public housing often serves as the last resource of decent and affordable housing, Congress should repeal the provision which allows PHAs to exclude evictions from their grievance procedures. Experience has shown that the grievance procedure is in fact often the best and least expensive (for both parties) forum for resolving many eviction disputes.

Restrictions On Use Of Assisted Housing By Undocumented Persons

This Committee is well aware of the controversies surrounding Section 214 of the Housing and Community Development Act of 1980 and HUD's April 1, 1986, regulations to implement that provision. U.S.C. § 1436a; 51 Fed. Reg. 11,198 (April 1, 1986). The controversy produced by the promulgation of those regulations has highlighted the extraordinary hardships, excessive administrative burdens, the sense of injustice, the opportunities for abuse of power, the anxiety, particularly for elderly tenants, owners and, in some cases, the federal government, which implementation of Section 214 will cause. There are not sufficient numbers of undocumented people living in HUD-subsidized housing to justify the suffering and other adverse consequences created by Section 214. Thus, Section 214 should be repealed.

If it is not possible to repeal Section 214 entirely it should be revised in two respects. First Congress should make it clear that the eligibility restrictions in Section 214 are to be prospective, not retroactive. Thus, tenants and homeowners participating in the HUD programs as of the effective date of any implementing regulations should not be covered by the new rules. Second, it is unfair to disqualify from the HUD programs households in which some, but not all, of the household members are unable to meet the Section 214 eligibility requirements.

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Disqualifying the entire family in those circumstances means that citizens and lawfully present non-citizens who have done nothing wrong, will be denied housing assistance. To prevent that injustice from occurring Section 214 should be amended to provide that both applicants for and current participants in the HUD-subsidized programs will not be disqualified if any of the household members meet the Section 224 eligibility criteria. Section 206 of H.R. 4 only grandfathers in families who are presently receiving assistance and in which at least one family member is either a citizen, a national or an eligible alien resident. It does not go far enough.

Several other provisions of Section 286 must also be revised. The fair hearing procedures in 286(b)(6) must be modified and newly legalized aliens must be permitted to participate in such programs. We would be happy to work with the Chairman and other members of the Committee toward an equitable solution.

Preventing Fraud and Abuse

Section 287 of H.R. 4 permits HUD to require applicants and participant households to disclose their social security numbers. We think that this is a fine idea but safeguards must be provided to ensure that people are treated fairly.

We have been involved in numerous attempts by PHAs and landlords to terminate tenants for alleged fraud. Not surprisingly, but many times the problem can be traced to the failure of the owner or agency to explain adequately to the tenant the reporting requirements of the program involved. The problem is often compounded by the fact that reporting requirements for changes in assets or income during the period between annual recertifications are different for many of HUD's programs. The combination of these variations and the inadequate information available to many low-income tenants creates an enormous risk of erroneous deprivation. For these reasons, it is imperative to establish a specified standard that assistance only be terminated upon a showing that the tenant knew of the requirement and knowingly violated it in order to secure a higher subsidy or lower rent. Otherwise, the Committee could be fostering an increase in the number of families who are homeless.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Targeting

CDBG funds are allocated to local governments primarily on the basis of the number of poor people and the number of substandard housing units in each community. Yet the funds themselves do not have to be targeted by local governments to benefit those people responsible for their receipt. In 1983 Congress amended the CDBG Program to require that at least 51 percent of the funds be targeted to low- and moderate-income persons, defining low-income as 50 percent of the area's median income and moderate-income as 80 percent of the area's median income. That amendment did not go far enough. Not only may 49 percent of the funds be spent on middle- and upper-income households or neighborhoods, but low-income people need not be specifically targeted. As a result, a community can satisfy its 51-percent requirement by earmarking CDBG funds to those earning 80 percent of the area's median income.

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H.R. 4 should be amended to require that 100 percent of CDBG funds must be spent on activities which benefit low- and moderate-income people and, of that amount, at least 51 percent of the funds should be spent on activities which specifically benefit low-income people.

Economic Development

Statutory amendments in 1981 made it much easier for local governments to use CDBG funds for economic development activities, and many communities have taken advantage of the increased flexibility. But in no area of CDBG expenditures has the determination of benefit-in-fact been more difficult to make.

H.R. 4 should be amended to require that each community include in its application for CDBG funds an economic development strategy which:

1. Describes the economic development needs of lower-income people and the manner in which proposed economic development activities will meet those needs;
2. Describes the nature and number of jobs created and ensures that they will be targeted to lower-income people who are unemployed or underemployed.
3. Gives priority to economic development carried out by community-based organizations;
4. Provides for the expansion of economic opportunities for lower-income people by including recruitment, training and vocational development programs;
5. Promotes neighborhood revitalization goals that include the creation of permanent jobs in lower-income neighborhoods, the creation or expansion of business opportunities in lower-income neighborhoods and the provision of essential services in those neighborhoods;
6. Includes steps that will be taken to enforce and document the extent to which economic development activities have in fact benefitted lower-income people.

Enforcing Statutory Goals

A return to active HUD review both of proposed expenditures and actual expenditures is the only way to guarantee that CDBG program goals are being met. While HUD prefers to view the program as if it were a general revenue-sharing grant, Congress clearly does not share that view and has always insisted that federal goals and objectives be implemented.

H.R. 4 should be amended to require local governments to submit applications for HUD's prior review, and HUD should be required to approve an application unless the applicant's description of its needs is plainly inconsistent with generally available data, or the activities proposed are plainly inappropriate to meet the needs identified, or the application does not comply in some other respect with applicable law. During the review period, HUD should be required to take into account any administrative objections which bear on the review process. Finally, HUD should be admonished in the report accompanying H.R. 4 for its failure to conduct meaningful performance reviews.

Citizen Participation

The success of a local government's CDBG program is greatly enhanced if the citizens affected have an adequate opportunity to participate in the development and implementation of assisted activities. Some communities recognize this and continue to implement citizen participation procedures once required under HUD regulations; other communities, once those regulations were rescinded, cut back significantly on the amount and quality of citizen input into their CDBG plans.

H.R. 4 should be amended to require that the citizens who will be affected by particular activities at the neighborhood level be involved in the planning and implementation process. The views of lower-income people should be solicited, and technical assistance should be provided to citizen groups representing low-income people who seek to develop programs or submit statements.

CDBG-Assisted Housing

Section 506 of H.R. 4 would expand the listing of eligible activities to permit the use of CDBG funds to construct or substantially reconstruct the home of a low-income owner-occupant whose house has been determined to be unsuitable for rehabilitation. To guard against abuse, the amendment should also specify that the assistance cannot be granted as a part of a mandatory code enforcement program directed at low-income homeowners and that the owner of the new structure must be the same person who occupied the substandard structure.

Currently, neither the statute nor the regulations specify the nature or the duration of use restrictions to be imposed on CDBG-assisted properties. As a result some communities have imposed restrictions coterminous with the length of the loan they are making to a developer or owner of housing, and others have picked arbitrary periods of time ranging from five to 30 years. H.R. 4 should be amended to require that legally enforceable use restrictions be imposed for the useful life of the structure assisted, or a minimum of 30 years, whenever a local government uses CDBG funds to acquire or dispose of land for housing or whenever it provides loans or grants for the acquisition, financing, or operation of such housing.

HOMELESSNESS

This Subcommittee does not need to be reminded of the demagogic shortsightedness of a federal housing policy which has cut back severely on the provision of permanent housing affordable by the low-income at the same time that the numbers of the homeless have grown dramatically. While a tenfold increase in new units of assisted housing is, of course what is really needed, and what we should not lose sight of Congress must now also meet the dire and immediate needs of people who need short-term and interim housing and should provide funding for shelters and transitional housing at much greater levels than those proposed in H.R. 4.

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With respect to "second stage" or ~~intermediate~~ H.R. 4 requires that a non interest-bearing loan be repaid if the structure for which the loan is made is used for housing the homeless or low-income people ~~and for a~~ period following initial occupancy. All ~~other~~ ~~other~~ but especially outright grants should be made to the recipient's agreeing to make the assisted ~~rent~~ affordable rent levels to low-income people ~~for the life~~ of the structure.

Prevention

There are several actions if taken by ~~the~~ ~~the~~ go a long way toward preventing homelessness. For ~~that~~ CDBG statute should be strengthened to prohibit ~~displacement~~ requiring that the following conditions are met:

1. HUD has reviewed and approved ~~an~~ ~~an~~ displacement plan which citizens assist in ~~developing~~ implementing and monitoring.
2. The determination must be made that ~~displacement~~ is either unavoidable or in the best interests of ~~both~~ the community affected and the households affected.
3. All low-income housing lost or converted ~~must~~ be replaced on a one-for-one basis.
4. Displacees should be reimbursed all ~~expenses~~ incurred in connection with moving, and should be entitled to decent housing costing no more than 30 percent of their income. For renters, payments equal to the difference between 30 percent of income and monthly housing costs must be made by the local government for a period of 15 years.

The CDBG statute should also be amended to require recipients of such funds to certify that they are preserving low-income housing including Single Room Occupancy hotels. Section 211 of H.R. 286 "The Homeless Persons' Survival Act of 1987" provides a starting point for this idea. Section 303 of that same bill would require recipients of CDBG funds to make their tax-foreclosed properties available for shelters and low-income rental properties. If cities continue to testify on the need for federal assistance to deal with the problems of the homeless they must make every effort to see that affordable units are not lost within their borders.

Yet another provision of H.R. 286 would prevent unnecessary evictions for non-payment of rent from public and subsidized housing unless the managers can show that the tenant's rent was accurately computed and assessed. (Section 201) This is a wise provision and should be supported. We know of many situations in which tenants are evicted due to mistakes of the FMA and not the fault of the tenant.

CONCLUSION

We thank the Committee for its opportunity to present our views on this year's housing legislation. We hope that suggestions we have made will be of assistance to the Committee, especially at a time such as this when the need for federally subsidized housing is as great as it ever has been, but the resistance to providing it is even greater. If we don't provide the resources to address this situation today, we will only have to pay more tomorrow.

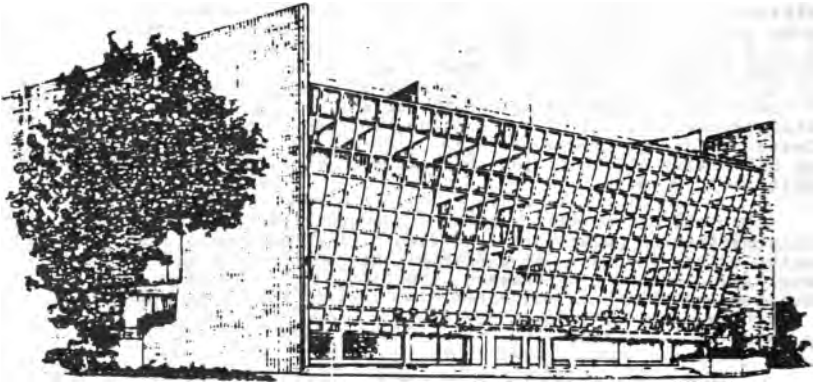
Statement of the NATIONAL ASSOCIATION OF HOME BUILDERS before the

Committee: House Banking Committee,
Subcommittee on Housing and Community
Development

Subject: Housing and Community Development
Act of 1987

Witness: Dale Stuard

Date: March 12, 1987
Place: 2222 Rayburn Office Building



National Housing Center
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STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
BEFORE THE
HOUSE BANKING COMMITTEE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

MARCH 12, 1987

My name is Dale Stuard and I am First Vice President of the National Association of Home Builders (NAHB).

On behalf of the 145,000 members of NAHB, I commend you, Mr. Chairman, for moving rapidly to gain enactment of housing authorization legislation, legislation which will be the first housing bill to become law on its own merits in six years.

Mr. Chairman NAHB realizes the housing bill this Subcommittee will consider in the coming weeks represents unfinished business from the 99th Congress. Toward that end we offer you our general support for this legislation. Specifically, I would like to address some of the issues of greatest concern to NAHB.

FHA AND GNMA USER FEES

First NAHB strongly supports the prohibition on new or increased user fees on mortgage credit contained in H.R. 4. The Administration's attempt to increase the fee charged in connection with the GNMA Mortgage Backed Securities Program from 6 basis points to 10 basis points ignored the prohibition contained in both the House and Senate versions of last year's housing bill. Further, the Administration's budget contains an increase in the FHA fee to become effective on July 1. The FHA user fee would increase from 3.8 percent of the mortgage amount to 5 percent, despite the substantial legislative history in opposition to such an increase.

Mr. Chairman, NAHB believes it is vitally important for the Committee to include legislative language prohibiting increases in these fees as well as a prohibition on fees for the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). The Administration proposals are part of an effort to reduce the federal involvement in essential credit programs. If adopted, they would increase housing costs for homebuyers at the lower end of the market. As this Committee knows, both FHA and GNMA produce a profit for the federal government. There exists no need to increase these fees to maintain the fiscal soundness of either program.

FHA-GNMA CREDIT LIMITS

Of equal importance to NAHB is the issue of adequate mortgage credit limits for these programs. Congress has provided overall credit ceilings for FHA and GNMA of \$100 billion and \$150 billion respectively for the current year, a substantial decrease from last year's unprecedented activity. Since about 40 percent of last year's activity was generated by refinancing--a situation unlikely to reoccur this year--we believe these limits appear adequate for 1987 and 1988 as well.

FHA INSURING AUTHORITY

As this Committee is well aware, FHA insuring authority was allowed to expire six times during fiscal 1986. For over 50 days FHA was not in business, creating costly delays for about half a million potential homebuyers, according to the Department of Housing and Urban Development (HUD).

Mr. Chairman, the marketplace will not tolerate such delays resulting from the frequent debates to which housing legislation fell victim during the last Congress. For this reason, NAHB supports permanent extension of FHA insuring authority as provided in legislation introduced by the distinguished ranking Member of this Committee, Representative Chalmers Wylie and Representative Les AuCoin (D-OR), H.R. 1128

OTHER FHA RESTRICTIONS

Current FHA homeownership programs are logically conceived--if a family meets certain basic income, credit and downpayment requirements and desires to purchase a modest priced home in the area, then typically they can qualify for FHA mortgage insurance. This is as it should be, and this is what has kept the program healthy for over fifty years and able to provide homeownership to millions of families while providing profits to the federal treasury.

Mr. Chairman, NAHB opposes the provisions in the Administration budget which would prohibit including customary closing costs and increasing downpayment requirements to 5 percent for those families earning in excess of \$40,000 per year. We also oppose terminating new insurance for Section 232 Nursing Homes and Section 242 Hospital insurance.

FHA INVESTOR LOANS

The FHA Investor Loan Program is of great importance to renters and builders alike. Current law provides single-family FHA mortgage insurance for owner-occupants (primary residences) as well as for single family rental housing (investor loans). The Administration, however, has proposed limiting the FHA single family program to owner occupants only. The Bureau of Census has determined that 30 percent of all families who rent reside in single-family housing. Many of these families have large households

Further, the FHA Investor Loan program has provided builders with an important tool over the years for inventory control, particularly during times of high interest rates. The private mortgage insurance market has increasingly withdrawn from the single family rental market. According to a HUD-FHA Task Force Report released earlier this year, investor loans during 1985 were 15.6 percent of overall FHA single-family activity, but only 3.4 percent of private mortgage insurance activity. If FHA were to withdraw from this market, the private market would not meet the need.

Tighter underwriting and credit standards have been recommended for the investor loan program in a 1986 HUD-FHA Task Force Report on Fraud and Abuse. We have supported the recommendations of the task force and are working with HUD on recommendations to ensure the soundness of the program.

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FHA ADJUSTABLE RATE MORTGAGES (ARMs)

Existing law restricts the volume of the FHA-Adjustable Rate Mortgage (ARM) to 10 percent of the previous year's overall FHA activity. Due to the record-breaking mortgage lending activity which occurred last year, HUD had to notify their field offices that authority to use the FHA-ARM program would be depleted by early spring-less than 5 months into the fiscal year. The FHA-ARM program has proven itself to be a successful demonstration. It provides adequate protection to homebuyers by restricting the maximum annual increase in the mortgage rate to one percent per year with a cap of five percent over the life of the mortgage.

H R 4 would increase the FHA-ARM cap to 20 percent. NAHB supports an increase of at least this amount

MULTIFAMILY MORTGAGE INSURANCE LIMITS

Current law limits the maximum insurable FHA mortgage for Section 221(d) (3) and Section 221(d) (4) multifamily rental housing programs to limits set in the Housing and Community Development Act of 1978. H R 4 contains no increase for these programs but we would urge an appropriate increase in limits to reflect increased development costs.

MANUFACTURED HOUSING BUILT ON PERMANENT CHASSIS

The Manufactured Home Construction and Safety Standards Act of 1974 requires HUD to develop standards for the construction, design and performance of manufactured housing built on a permanent chassis. Housing built to these standards is exempt from state and local buildings codes. All other forms of housing must meet all applicable state and local building codes including stricter structural and energy requirements. When HUD learned that some of their representatives had granted design approval which would permit removal of the chassis, field offices were notified that this practice was in violation of Title VI of the Act. NAHB strongly urges this Committee not to change the definition of manufactured housing under the 1974 Act. If the chassis is removed from a manufactured home, it should not be eligible for the HUD code and should be required to meet all state and local building codes, including the higher energy standards required for conventionally built housing. Otherwise, we are adding to consumer confusion which has already occurred in the marketplace. Manufactured homes removed from their chassis and placed on a permanent foundation may have the outward appearance of a conventional home meeting local building codes. However, the structural and energy requirements are considerably less for those manufactured homes built under the HUD code.

HUD ASSISTED HOUSING PROGRAMS

Since 1980, the federal commitment to providing additional housing assistance through HUD's assisted housing programs has been greatly reduced with new budget authority decreasing by more than 70 percent. While NAHB continues to support deficit reduction efforts, we believe housing programs have paid more than their fair share. It is time to reassess the federal commitment to housing for lower income families and the elderly. The Housing Development Grant (HODAG) Program, the project-based Section 8 loan management set aside, property disposition, and other assisted housing programs are key to maintaining adequate and affordable low and moderate income rental housing. To continue scaling back the number of project-based subsidized units each year will prove very costly indeed in the decade ahead. We urge you to maintain these programs at or near current authorizing levels.

BROADEN ELIGIBILITY FOR ASSISTANCE

In providing federal assistance to lower income families, Section 203 would allow a greater percentage of lower income families to be eligible for housing assistance. Specifically, this section would permit up to 25 percent of those families with incomes between 50 and

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80 percent of area median income to occupy federally assisted housing. Current law severely restricts the percentage of families in this income range to between 5 and 10 percent, depending on when the project was completed for occupancy. Mr. Chairman, we have found that it is often the large family with a single head of household who is most severely penalized by this restriction. NAHB strongly supports the increase in this limitation contained in H.R.4.

MODULAR HOUSING STUDY

H.R.4 contains a provision for a study of voluntary national standards for modular homes. The purpose of such a study would be to describe feasible alternative systems for implementing a voluntary preemptive national code for modular housing, including panelized housing. NAHB has been pleased by the development of regional compacts and believes that regional solutions may provide the best answer for overcoming the maze of conflicting state and local requirements. We believe that this study may encourage such regional solutions and therefore we support its inclusion in the House Bill and would urge you to include recommended language changes we have provided your staff.

FAIR HOUSING TESTERS

Also included in H.R.4 is a provision authorizing funding for fair housing testing, known as the Fair Housing Initiatives Program (FHIP). NAHB supports fair housing and supports the FHIP program. However, we would urge the Committee to include the guidelines approved by the Department of Housing and Urban Development in any authorization for the Fair Housing Initiative Program.

COMMUNITY DEVELOPMENT

NAHB also supports maintaining the community development programs: Community Development Block Grants (CDBG), Urban Development Action Grants (UDAG), and the Rental Rehabilitation Grants (RRG). These programs are important contributors to maintaining the nation's existing housing and promoting neighborhood and economic development. For example, according to HUD, about 30 percent of the CDBG program funds are used by local governments for rehabilitating existing housing. Reduction or termination of these programs would severely diminish the government's role to encourage retention of the existing housing stock.

RURAL PROGRAMS

Mr. Chairman, we also strongly urge this Committee to adequately fund and support the Farmers Home Administration (FmHA) rural housing programs at or near their current levels. These programs have helped two million families the elderly and the handicapped afford housing. The conditions which gave rise to authorization for FmHA to make housing loans in 1949 still exist today but the commitment to providing housing in rural areas is in serious doubt as rural housing programs have been reduced by over 50 percent since 1980.

The Administration's FY88 budget again proposes termination of existing rural housing construction programs, including the Section 502 single-family program, the Section 515 multifamily program and rural rental assistance. The budget substitutes \$378 million for 21,200 vouchers specifically designated for rural areas and administered by Farmers Home. NAHB believes the voucher system proposed by the Administration will not work in rural areas. A voucher does not provide needed new construction units in rural areas. The Congressional Research Service (CRS) projects a housing shortage in rural areas of 375,000 units between 1986 and 1990. Vouchers will not address this need nor will they alleviate the problem of a lack of adequate housing for use with vouchers in many rural areas. We urge the Subcommittee to reject the Administration's proposed voucher system which would replace the traditional rural housing construction programs.

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Mr. Chairman, we are pleased with the provisions in H.R.4 which would provide relief for the Section 502 "40 percent rule." Under current law, 40 percent of Section 502 funding must go to very low income families earning 50 percent of area median income or less. Because of difficulty in qualifying buyers which meet this requirement, 28 percent of the appropriation set aside for the very low income was not spent in FY86. Your bill provides more flexibility by amending the law to allow the higher of 50 percent of non-metropolitan median income or 50 percent of HUD median income figures to be used. In this way, greater use of the Section 502 housing funds would occur as more very low income buyers would be eligible to qualify for loans.

SECTION 515 PREPAYMENT

Mr. Chairman, NAHB must oppose legislation which retroactively eliminates a borrower's contractual right to prepay FHA housing loans. We do support assistance for displaced tenants in the form of increased rental assistance however and we also encourage the development of incentives to encourage proper maintenance and retention of the current rural housing stock available for low-income households.

ENERGY CONSERVATION

The issue of energy conservation remains significant. Program authority for the Solar Energy and Energy Conservation Bank expires at the end of 1987. NAHB supports its extension. The HUD Solar Bank was authorized to provide loan assistance and matching grants for low- and moderate-income families to purchase energy conservation and solar energy improvements.

Current Administration policy advocates eliminating a federal role in residential energy conservation efforts and has succeeded to a large extent by elimination of energy tax credits at the end of 1985 on residential structures, substantial reduction in funding of energy conservation research including the crucial area of building systems at the Department of Energy, and elimination of additional funds for the HUD Solar Bank since 1986. Various other DOE programs targeted directly to housing also have been greatly curtailed. Mr. Chairman, NAHB believes the combination of these events will result in a waste of our energy resources as well as an added cost to consumers.

FHA SINGLE FAMILY MORTGAGE INSURANCE LIMITS

Mr. Chairman, we are interested in the issue of adequate mortgage limits for the FHA single-family program. Current law establishes the maximum mortgage limit for single family housing at \$67,500 with a maximum cap of \$90,000 for high cost areas. NAHB strongly supports having the FHA mortgage limit reflect both inflationary trends in the overall housing market as well as differences in housing costs in various parts of the country. The current FHA base limit of \$67,500 has not been adjusted since 1979 and we believe that increasing the base and dealing with high cost area inequities are issues which should be considered by this Committee.

SECONDARY MORTGAGE MARKET ISSUES

NAHB firmly supports enhanced secondary mortgage market activities and we again want to emphasize our opposition to any new or increased user fees for GNMA, FNMA and FHLMC. These secondary market agencies have long been leaders in new and innovative secondary mortgage market programs. Their status has promoted both the development of the secondary mortgage market as well as the development of new kinds of mortgage backed securities which later were adopted and expanded by private issuers. We seriously question whether this evolution would have occurred as rapidly or as positively if FNMA and FHLMC had been privatized or if their cost of funds had been higher. For this reason, we oppose a cap which restricts their purchase limits as proposed by the Administration.

PRESERVATION OF ASSISTED HOUSING STOCK

Two years ago, NAHB published a report providing a comprehensive analysis of lower income housing needs and issues. In this study, we examined the issues involved in maintaining, managing, and preserving the stock of government assisted and public housing. At current average development costs of roughly \$40,000 per rental housing units, the assisted rental stock, excluding Section 8 existing and voucher units, would cost in excess of \$130 billion to replace. Therefore retention and sound management of this housing stock are crucial for the households served by those units and for those who would have to compete for housing with those displaced by any reduction in the assisted housing stock.

Over the next decade, owners of much of this housing stock will face expiring federal subsidies and prepayment opportunities. Both the federal government and many private owners will face the choice of terminating or of continuing relationships under which subsidized private units are provided to low income tenants. NAHB believes that federal policy should work toward maintaining these relationships by renewing assistance contracts and by providing incentives for continued participation by private owners. The contractual rights of property owners to withdraw from programs should not, however, be abrogated in the process. Further we must take exception to Section 241, — Prepayment of Mortgages in H.R.4 which would mandate a right of first refusal on the sale of projects at fair market value to units of government which agree to restrict the occupancy to low and moderate income residents. As drafted, we believe this provision would place retroactive restrictions on property owners which we oppose. We know of Mr. Frank's interest in this issue and look forward to working with the Subcommittee to develop a responsible package of legislation.

NATIONAL HOUSING POLICY

Mr. Chairman, I would like to call to the Committee's attention to NAHB's "A Blueprint For National Housing Policy" which was adopted by our Board of Directors in January. This blueprint is a comprehensive statement of NAHB's views on key housing policy issues in today's environment which expands on our policy studies conducted in 1984 and 1985. NAHB believes it is essential that a comprehensive national housing policy be developed to ensure an effective, efficient housing delivery system. In view of the many policy changes that have occurred in recent years, NAHB feels the entire policy-making process for housing needs to be reviewed and revised to increase its effectiveness. We know of your interest and efforts in promoting a national housing policy, Mr. Chairman, and we would like to join with you and this Subcommittee on this task.

FEDERAL CREDIT REFORM

We strongly oppose a provision in the Administration's FY88 Budget request on credit reform, which proposes to create a revolving fund at the Treasury Department. As stated in the budget document, "loan guarantees would be put on a basis comparable to direct loans."

While we have many questions about the proposal, we would strongly urge this Committee to challenge such unsound thinking. For the government to insure or guarantee a loan in the event of possible default does not commit the resources required under a direct loan program. Further, the purpose of the mortgage insurance premium is to provide the government with the revenue necessary to pay for such anticipated future claims. Mr. Chairman, to state that direct loans and loan guarantees are cut from the same cloth borders on the absurd. We urge this Committee to oppose any such credit reform and encourage you to seek referral of such legislation to this Committee.

Thank you for the opportunity to present our views. I will be happy to address any questions you may have.



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Mortgage Bankers Association of America

TESTIMONY OF

**Thomas M. French, Jr., CMB
Chairman of the Board
BancBoston Mortgage Companies, Inc.**

on behalf of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

of the

**COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES**

on

**HR4, the "Housing and Community Development Act of 1987,"
and Related Housing Legislation**

March 12, 1987

Mr. Chairman and members of the Subcommittee, my name is Thomas M. French, Jr. I am Chairman of the Board of BancBoston Mortgage Companies, located in Jacksonville, Florida. I also serve as President of the Mortgage Bankers Association of America.* MBA appreciates the opportunity to testify on proposed legislation, HR 4, the "Housing and Community Development Act of 1987," co-introduced by Committee Chairman Fernand J. St Germain and Subcommittee Chairman Henry B. Gonzalez. Accompanying me today are Burton C. Wood, MBA's Senior Staff Vice President and Legislative Counsel, and Brian D. Cooney, MBA's Associate Legislative Counsel.

I am pleased to discuss with you pertinent provisions of HR 4, as they affect the real estate finance industry and related housing issues of importance to MBA, as well as those provisions of the Administration's fiscal year (FY) 1988 budget proposal that will, if adopted, have a profound impact on housing and mortgage finance.

Before that, however, I would like to express our deep appreciation for this Committee's, as well as Congress's, support in the successful effort culminating in the recent

Congressional passage of HR 1056, which will prevent the Government National Mortgage Association (GNMA) from imposing fees on its mortgage-backed securities program above those necessary to keep the program sound and healthy. We believe this bodes well for a strong resurgent national housing policy.

The items of interest to MBA in HR 4 are discussed in detail below.

HR 4, THE "HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987"

Prohibition on User Fees

MBA strongly supports Sections 441 and 403 of HR 4 which prohibit increases in user fees for the Federal mortgage credit programs of the Federal Housing Administration (FHA), GNMA, the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC).

Charging fees to users of the government's housing and mortgage credit programs for the purpose of enhancing U.S. Treasury revenues will increase mortgage rates and is contrary to the Congressional purpose of fostering homeownership through these programs and entities. MBA believes that, in the fight to reduce the Federal deficit, it may be necessary to raise taxes as a last resort, once significant cuts have been made in Federal spending. But such increases should be broad-based rather than imposing a special tax on homeownership. Homebuyers and borrowers should benefit from the purpose of these programs, which has been to foster homeownership opportunities by making mortgage credit more affordable for moderate- and middle-income homebuyers. These programs are discussed below in further detail.

FHA. MBA strongly supports Section 403 of HR 4, which would prohibit any increase in the current 3.8 percent FHA single-family mortgage insurance premium. For alternative mortgages insured under certain sections of the National Housing Act that may involve additional risk, Section 403 provides that the premium charges should be based upon actuarial analysis.

A true user fee should be equivalent to the cost of providing a service. In that sense, the FHA unsubsidized mortgage insurance programs have always been subject to user fees because the mortgage insurance premiums that are charged to borrowers have always

*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

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|---------------------------------|---------------------------------|
| o Mortgage Banking Companies | o Mortgage Brokers |
| o Commercial Banks | o Title Companies |
| o Mutual Savings Banks | o State Housing Agencies |
| o Savings and Loan Associations | o Investment Bankers |
| o Mortgage Insurance Companies | o Real Estate Investment Trusts |
| o Life Insurance Companies | |

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covered the cost of operating these programs, including administrative expenses such as salaries and overhead, as well as losses attributable to default claims that must be paid. FHA has always served the riskier borrower population, but because it carries a high mortgage insurance premium it has, nonetheless, been actuarially sound.

The Mutual Mortgage Insurance Fund (MMIF) is the reserve fund that covers primarily the FHA Section 203(b) homeownership program. Borrowers' premiums are used to cover operating costs, and the balance of those fees are placed in the MMIF. As of the end of FY 1986, it contained \$4.07 billion in reserves. Thus, the cost of providing the service that the Federal government offers, mortgage insurance, is fully covered at present by fees. Yet the Administration's FY 1988 budget proposal would increase those fees so that the Federal government would derive even larger income from program operations. And that income is obtained from those who can least afford it: moderate-income homebuyers.

According to MBA's Economics Department, increased fees on the average FHA loan on a \$85,000 home will cost the average FHA homebuyer an additional \$2,200, thereby eliminating many would-be homebuyers from qualifying for FHA loans. The maximum loan that FHA may insure is \$87,500 in many areas and up to \$90,000 in designated high cost areas. These limits serve to focus the benefits of the FHA program on those who need them.

GNMA. MBA strongly supports Section 441 of HR 4, which would prohibit an increase in the GNMA guaranty fee from the current 6 basis points, as well as prohibiting the imposition of fees on the debt and securities issuances of FNMA and FHLMC.

The GNMA-MBS program provides a means for homebuyers, primarily moderate- to middle-income families and veterans, to obtain competitive access to capital markets via the secondary mortgage market. From the inception of the GNMA-MBS program in 1988 until December 31, 1988, GNMA imposed an annual guaranty fee of 6 basis points with respect to pools backed by FHA and VA single-family mortgages. Experience indicates that this fee more than amply provides for the expenses of GNMA and adequate reserves for potential losses.

Since the GNMA-MBS program was initiated, GNMA has collected guaranty fees of \$817.4 million. In addition, it has collected other fees, and has earned investment income that has been set aside in the GNMA reserve fund maintained with the Treasury Department, which totalled \$1.35 billion as of September 30, 1988. During 1988 alone, about \$392 million were added to reserves, while program losses were only about \$200,000, or 0.06 percent. GNMA has never had to draw any amounts from its reserve at the Treasury, having paid all claims from current year's income. In fact, the proposed Federal budget for FY 1988 indicates that GNMA expects to transfer \$485 million to the Treasury, after payment of all operating expenses and losses during FY 1988.

FNMA and FHLMC. MBA strongly supports Section 441 of HR 4, which would prohibit the imposition of increased fees on the debt and securities issuances of FNMA and FHLMC. Both entities currently charge fees to lenders for mortgage purchases and guaranties of mortgage-backed securities that are set at levels designed to cover FNMA's and FHLMC's costs and underwriting risks. FNMA and FHLMC do not require any Congressionally appropriated funds to operate.

All of these mortgage credit programs represent a true working partnership between private enterprise lenders, who provide the mortgage funds, and the Federal government, which provides a guaranty or insurance program. Borrowers benefit because these programs ensure a stable supply of mortgage credit at the most affordable rate possible. These entities, by pooling loans in mortgage-backed security form for sale in national credit markets, increase market efficiency, which lowers mortgage interest rates. In essence, these activities put individual borrowers on the same plane as large government and corporate borrowers.

MBA urges Congress to keep housing affordable and not to adopt user fees on the mortgage credit program of FHA, GNMA, FNMA, or FHLMC.

Permanent FHA Insuring Authority

Section 401 of HR 4 extends FHA's insuring authority through September 30, 1988. MBA strongly urges Congress to enact permanent insuring authority for FHA. While Section 401 provides program continuity for one year, it does not offer any protection against FHA program disruption in future years. Permanent authority would grant relief to homebuyers and to mortgage lenders from the extremely disruptive situation experienced when FHA's insuring authority expired on seven different occasions between September 30, 1985 and September 30, 1986, lapsing for a total of 54 days.

FHA Investor and Second Home Loans

Section 404 of HR 4 would restrict the use of FHA single-family mortgage insurance to a borrower's principal or secondary residence. The Administration's FY 1988 budget proposes to limit FHA insurance eligibility to buyers of primary residences only.

MBA strongly opposes any legislative proposals that would restrict the use of FHA single-family mortgage insurance to primary residences. Investor-held properties are an important source of single-family rental housing, which is particularly important for moderate-income larger families that cannot afford to purchase homes of their own. Now that Federal spending for assisted housing and the new tax laws have limited investment opportunities in real estate, the availability of rental housing is more crucial than ever before. As mentioned, the Administration's proposal will also prohibit FHA financing on second homes. FHA is an important source of financing for such homes in areas where conventional financing is often unavailable.

In Mortgagee Letter 86-15, dated August 8, 1986, FHA has already made several changes to address the problems in the investor loan area, including the prohibition on taking cash out in investor refinances and the requirement of a credit check on individuals assuming an FHA loan within two years of the loan's original settlement date. For second homes, HUD regulations require an 85 percent loan-to-value ratio. A 15 percent downpayment should act as sufficient incentive for borrowers to avoid default.

MBA believes Congress should wait and see how effective the regulatory changes embodied in Mortgagee Letter 86-15 will be in reducing defaults before considering legislative restrictions on the FHA investor and second home loan programs.

Increase in Number of Adjustable Rate Mortgages FHA May Insure

Section 410 of HR 4 would increase the volume of adjustable rate mortgage (ARM) loans FHA may insure from 10 percent of the previous year's total origination volume to 20 percent. MBA urges that the volume limitation for FHA-ARMs be removed.

The Housing and Urban-Rural Recovery Act of 1983 (P.L. 98-181) authorized FHA to insure ARMs with payment caps of 1 percent annually and 5 percent over the lifetime of the loan. Because ARMs were a relatively new mortgage product at that time, FHA insuring authority for its ARM program was restricted to 10 percent of the total number of FHA mortgages insured in the previous year.

The FHA-ARM is a consumer-oriented product. With the FHA low-downpayment feature combined with the 1 percent annual increase cap, borrowers are insulated from the potential extremes of payment shock. Most conventional ARMs carry a 2 percent annual and 5 to 6 percent lifetime cap, and require 10 percent downpayments.

Although ARM activity has decreased because of lower fixed-rate interest rates, recent history has shown that this instrument will regain its popularity as interest rates rise. In establishing the limited demonstration program in 1983, Congress was proceeding cautiously, because ARMs were essentially a new type of mortgage product. Since that time, however, the marketplace has gone through the learning process of developing appropriate ARM products.

Reducing Losses Under the FHA Single-Family Program

Several provisions in HR 4 are designed to curb potential fraud and abuse in the FHA loan programs. These include: independent verification by HUD of a borrower's ability to pay; independent review by HUD of credit reports and appraisals under certain circumstances; and periodic review of the rate of early serious defaults and claims.

MBA strongly supports a strong and viable FHA program. Curbing fraudulent and abusive practices is an industry objective. While MBA supports the objective of increasing quality controls on FHA lending practices, we are concerned that FHA staffing levels are inadequate to take on substantial added responsibilities to review loan cases. Therefore, while MBA welcomes the additional responsibilities given the lender in the FHA Direct Endorsement program, which have enabled FHA to reduce its staffing requirements, it is important that FHA retain an adequate number of competent employees to monitor its programs and to train lenders in the procedures required for FHA processing. All FHA staff salaries are paid out of program revenues, and involve no Congressional appropriations.

In certain areas designated by HUD, MBA believes that it would be appropriate to require that appraisals be routinely performed by FHA staff rather than fee panel or Direct Endorsement appraisers. This would prevent collusion between a buyer and a seller when

properties are rapidly "flipped" and the increased sales price is due to rapid purchase and sale with only cosmetic repairs or no enhancement whatsoever. Even in non-fraudulent instances, this requirement would focus scrutiny on the value of a home in areas subject to speculative turnover and dampen an over-enthusiastic inflation of value. All properties in these designated areas sold or assumed within one year of purchase should be subject to this requirement. There should be an exemption if the sales price is not more than 5 percent higher than the sale price in a previous 12 month period. Where there is no excessive price inflation, borrowers or assumptors should not be subject to delays, and fee panel or Direct Endorsement appraisals should be sufficient to ascertain value accurately.

Another way to ensure quality control would be to require HUD to make detailed default information available to originating lenders and brokers. Purchasers of individual mortgages from brokers or purchasers of servicing portfolios do not currently have a way to assess quality. If the lender or broker has received default information from HUD, interested investors can ask for this information for analysis prior to making a purchase. This procedure would enhance an originator's incentive to maintain high quality controls. Privacy considerations would still be maintained, because only the originator would have direct access to the information.

Assurance of Adequate Processing of FHA Loan Applications

Section 414 of HR 4 would require the HUD Secretary to maintain at least one office in each state. MBA supports this provision because it will help ensure more timely processing of loan applications, particularly during periods of heavy volume.

Civil Monetary Penalties Imposed on Mortgagees

Section 412 of HR 4 would grant authority to the HUD Secretary to impose civil monetary penalties against mortgagees for any violations of the National Housing Act. MBA strongly opposes these provisions because they are overly broad in their scope and should be more precisely worded in order to identify better the abuses they are intended to redress. Further, MBA also strongly opposes the very narrow right of judicial review of HUD's finding of violations that the provision contains.

Lead-Based Paint Poisoning Prevention

Section 567 of HR 4 contains language that would clarify the authority of the HUD Secretary to eliminate hazards under the Lead-Based Paint Poisoning Prevention Act (P.L. 91-696) by requiring the removal of intact lead-based paint, as well as chipped and peeling paint, found on the interior and exterior surfaces of buildings covered by FHA mortgage insurance and constructed during or after 1950. In addition, in light of recent court decisions relating to the hazards that lead-based paint poses to small children, HUD has promulgated final regulations, dated January 15, 1987, regarding the removal of lead-based paint from FHA single-family and multifamily insured and assisted properties.

MBA realizes the hazards that lead-based paint presents to families. We are concerned, though, that the enforcement of an overly stringent standard as a predicate to FHA insurance is financially infeasible.

The availability of testing equipment of lead-based paint is the greatest problem, particularly for the FHA single-family insurance program. There are currently only 400 machines in the country which can detect lead-based paint. The cost of each machine is approximately \$8,000, and the yearly maintenance is approximately \$2,500. FHA is receiving single-family insurance applications at a rate of approximately 2,000,000 per year, while there is little prospect of such an exponential increase in the number of testing machines in the foreseeable future.

Even if the problem of availability of testing equipment could be solved, use of testing equipment on the scale needed would involve a substantial new expenditure for fee appraisers (all the additional cost would fall on users of the program) and the creation of a new industry which would involve the training of hundreds of testing operators. Further FHA applications come not only from urban centers, but from remote and distant dwelling places from every part of the fifty states and territories. In most of these areas a strict testing requirement would effectively preclude FHA assistance to the people the National Housing Act was designed to assist.

The expense of testing and abatement would fall to the seller of the FHA-insured property. This may cause sellers not to sell to parties who require FHA mortgage insurance on their loans. The large numbers of families who cannot afford the downpayment required for conventional loans and those who cannot meet private mortgage insurance underwriting requirements may be excluded from homeownership. The clear purpose of FHA insurance—to help such potential homeowners—could be defeated, and testing requirements could effectively stop the program.

MBA believes that any legislatively mandated requirements for the removal of lead-based paint should be narrowly targeted toward those HUD-assisted multifamily housing projects that pose the greatest hazards of lead-based paint consumption by families. Strict standards for the homeownership insurance programs are inappropriate, because homeowners have a much greater incentive and ability to maintain their homes in such a way that the hazards presented by lead paint are minimized.

RELATED HOUSING AND BUDGET LEGISLATION

In addition to those provisions in HR 4 discussed above, MBA has concerns that relate to other housing and budget legislative issues which would impact upon the Federal mortgage credit programs. These issues are discussed in detail below.

Real Estate Mortgage Investment Conduits (REMICs)

The Tax Reform Act of 1986 includes a set of streamlined provisions governing the issuance of multiple-class mortgage-backed securities through Real Estate Mortgage Investment Conduits, or REMICs. These provisions clarify the tax laws by permitting, on an elective basis, substantially greater flexibility in the use of traditional mortgage-backed securities.

When this legislation was being considered by Congress, certain issues arose as to the level of participation FNMA and FHLMC would enjoy in the new securities vehicle. After lengthy discussions in the Senate Finance Committee, House Ways and Means Committee, and in conference, this issue was resolved by allowing both FNMA and FHLMC to participate fully, both as issuers and in allowing their securities to be used as underlying collateral, in REMIC transactions.

On November 17, 1986, the Treasury Department signed FNMA's request to issue REMIC securities. On January 21, 1987, FNMA submitted to HUD a program description whereby FNMA would issue REMICs backed by conventional loans. In a letter dated March 5, 1987, Secretary Pierce informed Chairman Gonzalez that HUD was delaying its decision on FNMA's submission for an additional 45 days.

MBA strongly supports the full participation of FNMA and FHLMC in REMIC transactions. MBA believes that the full participation of FNMA and FHLMC in multiple-class securities transactions would serve to expand the development of the secondary mortgage market, rather than inhibit private entries. The passage of these initiatives will introduce a new era in mortgage finance, similar to the early 1970s. The federally sponsored instrumentalities will serve as a catalyst to these developing markets, as their presence would provide the standardization and volume that is necessary for multiple-class MBSs to attract substantial investor interest. Those two factors are necessary to ensure that the products offered will be liquid and marketable.

Furthermore, the full participation of FNMA and FHLMC in all geographic markets and during all economic cycles will add much-needed stability to the marketplace and, thus, will serve as a continuing presence that investors may use as a benchmark against which to judge privately backed issuances. This stability will still allow experimental and custom-tailored multiple-class securities to be marketed successfully. But the market will be able to judge offerings against a standardized version.

The presence of FNMA and FHLMC has not impeded the advance of private entities into the secondary market arena, and their full participation, both as issuers of multiple-class securities and by permitting their MBSs to be used as underlying collateral, should not be excluded from the markets they have worked diligently to develop.

Expired Interest Rate Commitments and Delayed Closings

There is no historical precedent for the mortgage volume experienced during 1986 largely due to the deep drop in mortgage interest rates that year. While lenders have experienced high volume periods at previous times, historically, applications have generally not taken more than 60 days to process for settlement. Thus lenders were not willfully misleading their customers when they quoted interest rates for 60-day periods, but rather were just as surprised as consumers by the onslaught of activity and the resulting delays, particularly in obtaining appraisals and credit reports.

It is extremely unfortunate that because of this volume in loan applications, delays in processing caused some borrowers to miss closing dates, which resulted in some cases in their having to pay a higher mortgage rate or additional discount points because the commitment from their lender has run its course.

It would have been extremely difficult, if not impossible, for the mortgage lending industry to have anticipated this demand accurately enough to justify staffing at a level sufficient to handle the demand that occurred. Mortgage lenders are only part of the system. It would not have made good business sense to hire additional processing staff if there had not been a corresponding increase in the personnel of title companies or credit reporting agencies, or in the number of independent appraisers or closing attorneys.

The mortgage banking industry is coping with the issue of commitments now that the industry understands and knows that the backlogs are requiring lengthier processing times. Therefore, this situation should be viewed as a temporary, unforeseeable problem that is now being adequately and responsibly addressed. The lending industry has committed significant resources and funds to train new personnel and pay for overtime for existing personnel to cope with the volume.

MBA, together with the Federal Reserve Board and the Federal Home Loan Bank Board (FHLBB), is currently in the process of developing a consumer brochure that will educate prospective borrowers about the loan application process, with particular emphasis on interest rate commitment procedures. The brochure will also explain ways in which consumers can help expedite the processing of their loans. It is expected this consumer brochure will be available to the public some time this summer.

MBA strongly believes that legislation is not necessary, because the problem of lapsed commitments was a temporary one that was solely the result of high volume. In 1986, lenders took applications at nearly triple the customary volume. With this unprecedented level of volume, backlogs were inevitable; yet, predicting those delays was impossible because interest rates decreased relatively rapidly.

If there was any indication that breached commitments were a commonplace occurrence outside the atypical conditions the market experienced last spring, then there could be a justification for Congressional review in this area. However, MBA is strongly opposed to legislation at this time, because we believe that such legislation would be an excessive regulatory response to a highly unusual situation where there has not been an ample demonstration of abusive industry practices under ordinary market conditions.

Increase in Mortgage Limits for Multifamily Projects in High Cost Areas

MBA supports legislation that would allow the HUD Secretary to raise the mortgage limits for multifamily projects by specified percentages in high cost areas. We believe any increases should be reflective of the market reality of rising multifamily development costs and should help provide adequate financing needed to increase supplies of multifamily housing.

Increasing the Maximum Mortgage Amount for FHA

MBA supports an increase in the maximum allowable mortgage amount for FHA. Currently, the FHA maximum mortgage amount is set at \$87,500, with a high-cost allowance for certain designated areas that ranges up to a maximum amount of \$90,000. In many areas, the applicable maximum allowable mortgage amount for FHA does not reflect the realities of the housing marketplace. The maximum mortgage amount has not been adjusted since 1975.

FHA primarily serves moderate- to middle-income homebuyers. In those areas where the maximum amount is insufficient, homebuyers who might otherwise rely on the low-downpayment FHA programs are deprived of this available financing vehicle.

Home Mortgage Disclosure Act

HR 29, the "Home Mortgage Disclosure Act Amendments of 1987," was introduced by Committee Chairman St Germain and referred to this Committee. Section 2 of HR 29 would extend coverage of the Home Mortgage Disclosure Act (HMDA) to activities of the "mortgage banking subsidiary of a bank holding company, savings and loan holding company, or savings and loan service corporation that originates or purchases mortgage loans."

MBA strongly opposes any legislation that would extend the coverage of HMDA to include the mortgage banking company subsidiaries of bank holding companies, savings and loan holding companies, and savings and loan service corporations.

The expansion of HMDA to non-chartered, non-insured institutions, such as the mortgage banking subsidiaries of bank holding companies, would be overly burdensome and an inappropriate expansion of HMDA's original intent, which was to provide a data base for the evaluation of branch applications for deposit-taking financial institutions that are subject to the Community Reinvestment Act.

Mortgage banking firms do not take in consumer deposits. Many mortgage banking companies operate nationwide, potentially making loans in every one of the more than 300 metropolitan statistical areas (MSAs) in the country, with branch offices in many states. The expense of collecting, collating, and displaying lending activity by geographical areas expands exponentially for mortgage companies under the one-branch-per-MSA rule of HMDA, compared with the community oriented, chartered and insured, deposit-taking institution that HMDA was designed to monitor.

Authority of FNMA and FHLMC to Purchase Second Mortgage Loans

The authority of FNMA and FHLMC to purchase second mortgage loans expires September 30, 1987. MBA supports legislation that would extend permanently the authority of these secondary mortgage market agencies to purchase second mortgage loans. Due to the elimination of many interest deductions as a result of the Tax Reform Act of 1986 (P.L. 99-514), it is expected that second mortgage loans, because they are secured by a residence and could thus be eligible for an interest deduction, will become very popular for many Americans in carrying out their financing needs. The continued ability of FNMA and FHLMC to purchase these loans is crucial to the liquidity of this product, and will serve to lower interest rates generally for home improvement and other loans where the borrower's home serves as security for the loan's repayment.

Privatization of FNMA and FHLMC

A theme that reemerges in the Administration's FY 1988 budget proposal is the call to study "ways of privatizing" FNMA and FHLMC. Further details about how to accomplish this objective, or even why it is an objective, are not provided. But the Administration's budget does propose to limit the maximum mortgage that FNMA or FHLMC may purchase. The proposal calls for a freeze at the current limit of \$153,100 and a rollback that would be by city or region to set the limit at the lesser of \$153,100 or the "top quartile of the home loan distribution in any housing market."

MBA strongly opposes targeting of FNMA and FHLMC mortgage loan purchases. These mortgage purchase limits are set annually according to a survey conducted by the FHLBB, which measures changes in the average price of single-family homes purchased with conventional mortgage loans during the preceding 12-month period. MBA's Economics Department recently conducted a study concerning the accuracy of this index, and concluded that there is nothing about the FHLBB sampling methodology which suggests that the estimates of purchase prices used in the survey are not representative of the actual price of single-family homes purchased through conventional loans. Moreover, given the fact that the FNMA and FHLMC purchase limits apply to conventional loans, the FHLBB survey is most appropriate because it is based on a sample of homes purchased with conventional loans, whereas alternative surveys are based on samples of all homes purchased, regardless of the type of financing involved.

Federal Credit Budget Reform

The Administration's budget includes plans to send to Congress a proposal to establish dramatic new Federal credit program restrictions. The alleged purpose of this legislation is to consolidate management of all Federal credit and direct loan programs within the U.S. Treasury, to deauthorize the Federal Financing Bank (FFB) functions, and to impose controls that will limit the role of Federal credit programs. Although the full details of that plan have yet to be made public, its general intent is clear—quantification of the "implicit subsidy" for Federal guaranteed and direct loan programs, and sharp restrictions on use of Federal credit programs.

A Federal Credit Program Revolving Fund (the Fund) would take on FFB's current role as the "traffic cop" for funding federally backed direct and guaranteed loans, as well as assuming additional "management" functions, which include measuring program "subsidy" costs, collecting credit program data, and improving debt collection practices. The Fund would assess fees for each program, would establish and maintain reserves for payment of claims and losses, and would sell or reinsure loans and guaranties where Treasury determines it appropriate. Credit program policies and eligibility guidelines would remain within the jurisdiction of agencies currently operating credit programs. Finally, the proposal provides that appropriations acts would not only have to establish credit budget program limits, but would also have to contain a line item "appropriating" the "subsidy" attached to each program. This estimated fee would actually be paid into the Fund and recorded in the budget account of the originating agency.

The proposal covers all loans, credit guaranty, and direct loan programs of Federal agencies and entities partially or wholly owned by the government. This would cover mortgage credit activities of the VA, FHA, and GNMA. FNMA and FHLMC are not expected to fall within the purview of this proposal.

The Office of Management and Budget (OMB) has already estimated the present value of these "subsidies" at 1.2 percent for FHA, 1.9 percent for GNMA, and 6.3 percent for VA. As stated in the budget, these figures measure "the value of the subsidy to the borrower, not the cost of the subsidy to the Government. It would be inappropriate to use such a cost to Government basis for calculating economic subsidies, since it would not measure the cost of the loan guaranty to the economy." (Source: Special Analyses: Budget of the United States Government," Page F-37.)

The original Congressional intent behind creation of the FHA, VA, and GNMA programs was to foster homeownership opportunities by enhancing the affordability and availability of mortgage credit via the Federal guaranty. Thus, to allow the U.S. Treasury to quantify this "implicit subsidy" and collect that quantified amount from borrowers virtually undoes the benefit offered by these programs. If this proposal is adopted, the only positive features of these programs that would subsequently remain would be the low-downpayment (FHA) or no-downpayment (VA) requirements, free assumability, and somewhat more liberal underwriting guidelines.

The real benefit enjoyed under these programs is not a subsidy, but the capital market efficiency of the GNMA security, and the standardization offered by the underlying FHA and VA loan instruments. The non-subsidized FHA mortgage insurance program has created an atmosphere encouraging a continued source of private mortgage credit for low-downpayment, fixed-rate loans to homebuyers. The GNMA-MBS program ensures ready placement in the secondary market for FHA and VA loans. In effect, the existence of the GNMA-MBS program allows the individual consumer the same access to the credit markets as large corporate borrowers and the government.

MBA believes that this proposal is the proverbial wolf disguised in sheep's clothing. Under the guise of "credit management," this proposal will require borrowers to pay a user tax for the "implicit subsidy" attached by Treasury to a particular Federal credit program.

Housing programs (FHA, VA, and GNMA) represented 86 percent of the guaranteed loan commitments in 1986. The FHA and GNMA programs, as well as a number of miscellaneous, non-housing, guaranteed loan programs fall under the jurisdiction of the Banking Committee. Because these credit management concepts would fundamentally alter the character and direction of these programs, it is essential that the Committees of jurisdiction have a say in the progress of potential legislation. Therefore, MBA will be seeking joint referral to the Banking Committee, as well as to the Budget or Government Operations Committees.

THE ADMINISTRATION'S FY 1988 BUDGET PROPOSAL

MBA is deeply concerned by provisions in the Administration's FY 1988 budget proposal that call for the imposition of increased user fees and other serious restraints on an array of Federal mortgage credit programs operated by the FHA, GNMA, FNMA, and FHLMC.

Specifically, the Administration's Budget:

- Introduces for GNMA an increase in the mortgage-backed securities (MBS) guaranty fee from 6 to 10 basis points, effective March 1, 1987. As mentioned, this increase was imposed administratively on March 1. However, on March 6, 1987, HUD Secretary Samuel Pierce, Jr., ordered GNMA to roll back this increase. Also, as mentioned, HR 1056, which was recently passed by both the House and Senate, places a 6 basis point cap on the GNMA guaranty fee.
- Estimates an increase in the FHA mortgage insurance premium from the present 3.8 percent to 5 percent, to be implemented by July 1, 1987. Unless Congress enacts a prohibition, this increase can be implemented administratively. Also for FHA, the budget envisions restricting the program to primary residences, increasing downpayment requirements for borrowers with incomes over \$40,000, and prohibiting financing of closing costs.
- Proposes, vaguely, "studying ways of privatizing" FNMA and FHLMC, and specifically proposes to freeze and roll back the maximum mortgage purchase limits. The proposed limit would be the lesser of \$153,100, which would become a permanent ceiling, or an amount calculated on areawide or regional bases reflecting the "top quartile of the home loan distribution in any housing market."

These Federal mortgage credit programs are not spending programs. MBA and its members have supported the payment of adequate fees to cover operational costs of all the Federal housing programs, except the VA loan, which is considered an entitlement. Current fees are already providing operating profits.

As mentioned, MBA is alarmed at the Administration's proposals to tax the Federal housing programs under the guise of user fees without any suggestion that the fees are based on the actual risks inherent in insuring or guaranteeing the mortgages on low-, moderate-, and middle-income housing. For six years now, the Administration has been trying to cripple or eliminate those self-supporting programs, and for six years, Congress has said no. The country, and particularly the homebuyer, have become dependent on Congress for positive leadership in housing matters.

MBA will continue its fight against budget and other proposals put forth by the Administration the result of which would be to get the Federal government out of housing. We are grateful to Congress for its support in helping to fight anti-housing proposals in the past, and look forward to working with Congress to continue the fight in the future.

NATIONAL HOUSING POLICY

MBA believes it is time for an in-depth re-examination of this country's national housing policies and priorities, particularly in light of the attempts by the current Administration, and particularly OMB, to get the Federal government out of the business of providing credit support to homebuyers.

MBA is in the process of formulating what we believe will be a cohesive statement on the goals, principles, and programs which should be embodied in national housing policy. To this end, we have just published a booklet, dated February 1987, entitled "Preserving and Building the American Dream: An Agenda for National Housing Policy." We are hopeful that the ideas expressed in this booklet, which include what we believe the Federal government's commitment to housing should be, will help contribute to the establishment and implementation of a national housing policy.

We believe that a strong national housing sector is vital to our country. Yet, in the last decade, homeownership rates have dropped dramatically, especially among young families. From 1975 to 1985, the homeownership rate in the 25-29 year age group dropped from 43 percent to 37 percent, and for the 30-34 year age group, the rate dropped from 62 percent to 53 percent.

The Nation's housing policy should focus on this fact, and the fact that the Federal mortgage credit programs can contribute greatly to making Americans the best housed people the world. These programs have changed this country from a land of renters to a land of homeowners. They should be the foundation of a policy geared toward furthering the availability and affordability of decent housing. We should maintain broad-based opportunities for homeownership, and other housing alternatives, to assure that no one in America has to live in inadequate shelter or has to pay a disproportionate share of income to have decent housing.

Affordability of decent housing is a problem for many Americans. Few low-income families can afford to purchase a home; and they face limited opportunities for attaining decent, affordable rental housing. For a wider range of Americans, including moderate-income families, serious affordability problems emerge when downpayments are high, market interest rates are high, or the economy is in a weakened state.

The Federal government has a responsibility to maintain and improve the affordability of housing for all its citizens, using the most cost-effective means. FHA, VA, GNMA, FNMA, and FHLMC provide just such cost-effective programs and are critical to continuing the opportunities for American families to buy a home. For those who cannot own a house or do not choose to, the government has the responsibility of assuring that decent, affordable rental housing is available and accessible for all families and individuals.

Housing policy, in order to be cohesive and effective, should be guided by a framework of basic principles. We believe those principles should include:

- A commitment to the achievement of the opportunity for every individual in America to have decent shelter at an affordable price or rental rate.
- A conviction that homeownership should be the cornerstone of American housing policy. Homeownership provides opportunities as varied as the American people themselves. It provides the ultimate opportunity for independence, individualism, self-expression, and a sense of fulfillment. Homeownership gets people involved in their community, its government, and in the private property system—it builds good citizens. Homeownership provides a place of security and sense of belonging that forges stability and solid family ties.

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- For families and individuals that cannot afford decent housing, it is those where the marketplace does not provide a supply to meet their needs. Such as the elderly and handicapped, government has the obligation to provide suitable housing assistance.
- Because housing is so dependent on long-term credit policies that promote stable economic growth, low inflation, and low interest rates are critical to achieving adequate supplies of decent shelter at affordable prices and rents.

Although declining interest rates have created improved homeowning opportunities during the past few years, housing nonetheless represents the single largest housing expense for most households, including renters. Recognizing this and the importance of adequate housing, Congress should address the issue of the Federal government's role in fostering affordable housing for owners and renters alike.

We appreciate the opportunity to appear before the Subcommittee, and we would be pleased to furnish additional information as needed.

Separate but not apart from the Administration's efforts, the Department of Housing and Urban Development (HUD) has made numerous legislative/regulatory proposals through its budget process which would alter fundamental aspects of the FHA program and thereby, further restrict and reduce the participation class of FHA borrowers. In particular, HUD's FY88 budget proposal recommends the following FHA program changes:

- o Require customary closing costs (which have traditionally been permitted to be financed with the loan) to be paid up-front and in cash;
- o Remove the cap for both the 1 percent lender's loan origination fee and any post endorsement fees (such as the new assumption credit report fee which currently has a \$500 ceiling);
- o Institute conventional market underwriting standards into the FHA program (such as changing the current FHA debt-to-income ratio of 38/53 to a ratio which closer approximates the conventional debt-to-income ratio of 31/39)
- o Increase to a flat 5 percent the downpayment for FHA borrowers with incomes over \$40,000; and
- o Limit eligibility in the FHA single-family insurance program to buyers of primary residences (which would mean an elimination of the FHA's investor and second home programs).

As with last year's HUD FHA program changes, all of the proposals I have just mentioned will work in concert to "chip away" at the FHA participation pool affecting both low- and moderate-income brackets. In turn, this reduced usage will debilitate the program and thus, will likely further the Administration's goal to phase out the FHA program.

Recognizing that Congress continues to authorize and monitor these housing credit programs, we urge that you take time to reconsider the broader policy issue of the federal government's role in these programs. Towards this objective, we would support Congressional efforts to develop a formal national housing policy.

The NATIONAL ASSOCIATION OF REALTORS® fully supports our nation's fair housing laws. We also recognize the use of the enforcement tool of testing if the use of such tools is based upon reasonable and objective standards. Herein lies the basis of our ongoing concern with the Fair Housing Initiatives Program since it was first introduced as part of HUD's fiscal year 1986 budget request.

With this new program the Association became concerned that for the first time direct federal funds would be used to support testing of real estate practitioners by private self-appointed fair housing organizations without any procedural safeguards or guidelines.

For all of 1985 and into 1986, the NATIONAL ASSOCIATION OF REALTORS® opposed the authorization of FHIP because of this absence of any standards by which the testing component of FHIP would be implemented.

In early 1986, at the behest of House and Senate Banking Committee leaders, NAR began discussions with HUD in order to seek an agreement on FHIP. After 6 weeks of solid discussions, HUD and NAR President Clark Wallace signed an agreement which placed NAR's support behind the FHIP program. At the same time, HUD and NAR worked out a fair and balanced set of testing guidelines, which were approved after considerable debate by NAR's Board of Directors in May of 1986. These guidelines assure fair play by both sides. They also assure that federal funds are disbursed to trained qualified testers and that the funds will be spent on authorized activities.

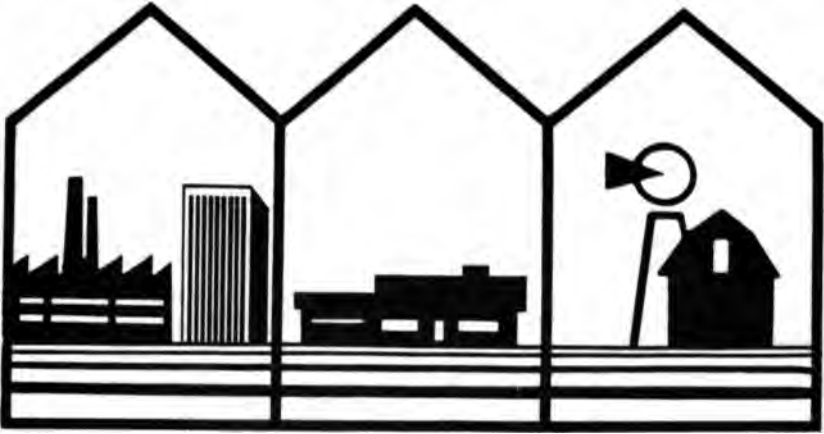
Secretary Pierce of the Department of Housing and Urban Development has agreed to go forward with regulations based on these guidelines as part of the testing program, and has given his assurance that the guidelines will govern both funding and program performance under the testing portion of the Fair Housing Initiatives Program.

Though the NAR Board of Directors prefers that the guidelines be included in the statutory language authorizing FHIP, the Board just last month agreed to a FHIP program which simultaneously "sunsets" both the program and the guidelines. It is eminently fair, Mr. Chairman, that a program of so controversial a nature be looked at by this Committee in the light of experience. The current Senate Committee bill calls for a demonstration program which lasts until September 30, 1989 and then is subject to review as are the guidelines which accompany it. This appears to us to be a solid step in the direction of fair enforcement procedures, and represents a considerable concession by the NATIONAL ASSOCIATION OF REALTORS®.

We believe that such a dual review of the FHIP program and the guidelines will prove useful to the Congressional debate surrounding the guidelines. By allowing the FHIP program and the guidelines to be a pilot effort then you, the Congress, can determine whether or not the guidelines proved effective for responsible testing programs.

As real estate practitioners, our position on FHIP has always been premised on the belief that we should be afforded the same kinds of protections that others in our society receive. We have the same aversion and sensitivity to being prejudged as "guilty" of violating the law as any federal employee possibly prejudged through testing as a drug abuser or a private business organization whose employees would be required to take polygraph tests without any showing of cause or complaint. Are those being tested at risk without even the allegation of a wrongdoing? Are the testing procedures fair? Are the testers independent and qualified? The proposal we recommend would aid in producing the right answers in the interest of all concerned and involved.

In conclusion, I would like to direct your attention to our written testimony which contains a more detailed review of specific housing issues which are of concern to the housing industry and more specifically, our membership. Thank you for giving me the opportunity to testify. I will be happy to answer questions you may have.



**Statement of the
NATIONAL ASSOCIATION OF REALTORS®
THE WORLD'S LARGEST TRADE ASSOCIATION**

TO:	SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT HOUSE BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE	
ON:	HOUSING ISSUES	
BY:	NESTOR R. WEIGAND, JR., PRESIDENT-ELECT	
DATE:	MARCH 12, 1987	(Written Testimony)

**STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE THE
HOUSE BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
BY
NESTOR E. WEIGAND, JR.
PRESIDENT-ELECT
MARCH 12, 1987**

INTRODUCTION

Mr. Chairman, my name is Nestor E. Weigand, Jr. I am a REALTOR® from Wichita, Kansas, and will serve as President of the NATIONAL ASSOCIATION OF REALTORS® in 1988. On behalf of the more than 775,000 members of our ASSOCIATION, I want to thank you and the members of your Subcommittee for the opportunity to present our views on housing issues and future housing legislation.

Over the past six years, the NATIONAL ASSOCIATION OF REALTORS® has reviewed, analyzed and commented upon a multitude of changes this Administration has proposed regarding the various federal housing credit programs. We are here today to, once again, express our concerns about the relentless, piecemeal approach of the Administration to dismantle these programs. It appears evident that the Administration will continue its efforts to privatize these federal programs in order to further its objective of reducing the federal government's role in housing. In keeping with the efforts of the National Association of Home Builders, the Mortgage Bankers Association and this ASSOCIATION, we believe that it is imperative that Congress develop a formal NATIONAL HOUSING POLICY in order to provide a reasoned framework in which to address this nation's housing needs. Our members are of the strong opinion that there continues to be a very necessary role for the federal government to play in housing, and are convinced that the American public would agree.

THE ADMINISTRATION'S FY1988 BUDGET PROPOSALS

"User Fees"

As part of the deficit reduction campaign, the President's FY1986 and FY1987 budget proposals included "user fee" provisions affecting the Federal Housing Administration (FHA) the Veterans Administration Home Loan Guaranty Program (VA) the Government National Mortgage Association (GNMA) the Federal National Mortgage Association (FNMA) the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal Home Loan Bank System (FHLB). In most instances, these "user fees" were not needed to aid the financial stability of the respective insurance funds or the programs themselves. Furthermore, the proposed fees were estimated to have a minimal effect, at best on the national deficit. However, these "user fee" provisions had been imposed, they would have had a dramatic negative impact on the participation and use of the programs by the homebuying public. Depending upon the type of program, these fees would have either increased the cost to the homebuyer and/or discouraged participation. These fees represented nothing more than a "tax" on homeowners, and we strongly opposed them.

• **FHA:** Although the Administration's most recent FY1988 budget proposals recommend "user fee" increases for only FHA and VA, the effect remains the same. In the case of FHA, the Administration has recommended an increase in the existing fee the FHA mortgage insurance premium (MIP) from the current 3.8 percent to "a level on par with those that private insurers would charge to provide a comparable guarantee. While the Department of Housing and Urban Development (HUD) has estimated that this level would be 5 percent, representatives of the private mortgage insurance industry have indicated that determining the premium level is very difficult, and have named no specific percentage increase.

The Administration's previous and current rationale for this increase is that the default experience of FHA loans originated in the 1981-1982 period would require the FHA to provide additional protection to the FHA insurance fund in the event of "unanticipated future losses. Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® has conducted analysis of the FHA Mutual Mortgage Insurance Fund (MMIF). After a review the most recent actuarial experience, it is clear that there is absolutely no need to raise the FHA MIP. In fact, there is substantial evidence to support a reduction in the existing 3.8 percent level.

Furthermore, according to our study, the principal justification for the Administration's proposal to raise the MIP (to provide additional protection against future losses from 1981-1982 defaults) is flawed. The 1981-1982 default experience is an aberration from the long-term experience of the FHA 203(b) program. In addition, the high mortgage interest rates and large monthly mortgage payments which contributed to the high default rates for 1981 and 1982 have resulted in extremely high non-claim terminations (prepayments and refinancings). Finally, the point of the maximum rate for bad loans originated in 1981 and 1982 is over because default rates on FHA mortgages traditionally peak in the third year after origination. As a result, the total number of mortgages that would be available to default from 1981 and 1982 is very low.

In summary Mr. Chairman, the proposed increase in the MIP is completely unjustified based on the current soundness of the MMIF. Since 1940, FHA has been self-supporting and there is no evidence to support the contention that the Fund's current reserves (\$4.3 billion as of December 31, 1986) are inadequate to cover any future anticipated losses. Indeed, the high level over-insurance that the MMIF enjoys could easily justify a decrease in the MIP.

The NATIONAL ASSOCIATION OF REALTORS® also questions the Administration's proposed fee increase as a means to reduce the federal deficit. It appears more likely that these fee increases would reduce the use of FHA and VA and, therefore result in a reduction in revenue to the respective insurance funds. In fact the Administration acknowledges this phenomenon in its FY1988 request for FHA credit authority which presupposes a reduction in FHA loan activity due to the fee increase and other FHA program restrictions. In other words, the increased fee would likely net a loss to the government instead of a gain.

• **GNMA:** In December, the Government National Mortgage Association (GNMA) announced that it was implementing a change in the allocation of the existing 50 basis point fee collected by issuers of GNMA mortgage-backed securities (MBSs). Effective March 1987 the fee split would change from 44/6 to 40/10 which means that the loan servicers would retain only 40 basis points and GNMA would increase their fee to 10 basis points.

According to GNMA officials this fee increase was necessary in order to bolster existing reserves and insure that GNMA could withstand any future recessions without borrowing from the Treasury. While we realize that this reallocation in the 50 basis point fee was the first in GNMA'S history, the NATIONAL ASSOCIATION OF REALTORS® did not believe that such a change was necessary at this time, and that it would ultimately have a detrimental effect on future FHA/VA homebuyers.

GNMA'S share is forwarded to the GNMA Mortgage-Backed Investment Portfolio, the reserve fund which backs the GNMA guarantee. According to our data, the GNMA reserve fund is in sound condition, with a balance of \$1.35 billion as of September 30 1986. At the end of fiscal year 1986 the total loss to the fund over its entire 17 year history was \$10 million. Never has this fund been required to meet a total agency loss. All the losses to the GNMA program have been funded from current earnings.

Any change in the GNMA fee structure similar to the one proposed by the Administration would result in a reduction of the basis points which are currently retained by the loan servicer. This basis point loss amounts to a percentage decrease in servicing income. Thus increased cost to the mortgage originator is certain to be passed on to potential homebuyers in the form of higher points for VA loans, and a combination of increased points and higher rates for FHA loans.

Due in large part to the efforts of the House and Senate Housing Subcommittee Leadership, H.R. 1056 which rescinded the GNMA fee split change that had gone into effect on March 1 passed the House on February 25 followed by the Senate on March 10. We would again like to extend our members' appreciation to Chairman Gonzalez and the Minority Leadership for their responsiveness to this arbitrary tax on homeownership.

FHA Operating and Credit Authority

• **FHA Operating Authority:** Mr. Chairman, last year we watched with disappointment and frustration, as FHA's operating authority expired six times. Each time there were incredible market delays as Congress debated this issue. In addition, due to unprecedented mortgage volume, FHA's insuring authority was depleted during the year.

The response from the public and the industry was dramatic. Thousands of prospective homeowners experienced delayed loan settlements, "backlogged" processing of their mortgages, and payment of higher interest rates because their lower rate commitments had expired. The disruptive effects of this situation were significant and could have been avoided.

For these reasons the NATIONAL ASSOCIATION OF REALTORS® strongly supports H.R. 1228 which has been introduced by Representatives Chalmers Wylie and Les AuCoin and provides a permanent operating authority for FHA. At the very least, however, Congress should adopt a "clean" extension of FHA authority for one full fiscal year.

• FHA Credit (Insuring) Authority: Last year Congress authorized a credit (insuring) level of \$100 billion for FHA. The Administration has recommended a level of \$70 billion for FY1988 predicated upon the belief that HUD recommended FHA program restrictions will be adopted, thus reducing the number of insurance commitments required under FHA.

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® is not as confident as the Administration that Congress will permit the implementation of these program limitations. Therefore, we do not share the opinion that \$70 billion will be an adequate credit authority for FY1988. Furthermore we strongly believe that it is important to provide sufficient credit levels so as to avoid chaotic and market-disruptive operational stoppages, such as those experienced in FY1986. We strongly urge this Committee to provide a credit authority level of at least \$100 billion for FY1988.

ADMINISTRATION/HUD'S LEGISLATIVE PROPOSALS

Separate, but not apart from the Administration's efforts, the Department of Housing and Urban Development (HUD) has made numerous legislative and regulatory proposals through its budget process which would alter fundamental aspects of the FHA program, and thereby further restrict and reduce the participation class of FHA borrowers. In fact, Mr. Chairman, when these program limitations are combined with the Administration's "user fee" recommendations, participation by both the bottom and upper tier segments of FHA's clientele will, for all intents and purposes, be barred from using the FHA 203(b) program. I will discuss each of these proposals separately:

Excluding FHA Closing Costs from the Total Acquisition Cost

Mr. Chairman, the Administration has recommended that FHA borrowers be required to pay closing costs, in cash, at the time of origination. Currently, FHA borrowers can finance closing costs over the life of the loan.

Although this proposal does not alter the existing treatment of the mortgage insurance premium which can also be financed over the life of the loan, excluding closing costs from the total acquisition cost will make it more difficult for potential homeowners to secure a loan by increasing the amount of cash required at origination.

Using 1985 FHA statistics (the most recent available), the ASSOCIATION estimates that the average downpayment required for an FHA loan would increase by approximately \$1,200 if this proposal were adopted. Our data further indicates that FHA borrowers already have very minimal cash reserves after settlement. On average, the ASSOCIATION'S survey showed that the typical FHA homebuyer had \$1,150 in reserve after closing. However, our survey also reported that over two-thirds of FHA borrowers had cash reserves lower than this figure. Clearly, increasing the amount of cash required by FHA borrowers who are already starved for cash will effectively prevent those otherwise qualified applicants from using the program.

Deregulation of the One Percent Lender Origination Fee and Post Endorsement Fees

The Administration has also suggested lifting the current one percent limit on the lender origination fee for FHA loans. Like the proposal to prohibit closing costs from being financed, this recommendation will also increase the costs of obtaining an FHA mortgage. Those borrowers who are already burdened by these added costs, those who have minimal resources—usually first-time homebuyers—will be eliminated from participating in the FHA program. It is ironic, Mr. Chairman, that the very segment of potential homeowners that this and other proposals will eliminate is the very same class that FHA was originally chartered to serve.

Similar in its scope, is the Administration's proposal to deregulate FHA post-endorsement fees, which would also place another financial burden on FHA borrowers. An example of how this change would be used is HUD's recent assumability modification which requires a credit check on all assumptors. HUD has authorized a credit check fee of up to \$500, which under this proposal, could be increased, thus imposing an even greater burden on FHA users.

Underwriting Criteria

The Administration has also proposed that conventional housing expense criteria be used in underwriting FHA loans. FHA's current housing expense-to-income ratio is 38 percent with a long-term debt-to-income ratio of 53 percent. If this criteria were changed to conform to conventional standards, a 25/33 proportion would be required.

Once again, Mr. Chairman, as with many of the Administration's other proposals this particular recommendation alters a very fundamental component of the FHA program, which was established to promote availability of mortgage financing to homebuyers underserved by the conventional market.

The ASSOCIATION strongly opposes this suggestion. Perhaps more than any other proposal advanced by the Administration, this specific change would deny a substantial number of potential FHA users the opportunity to own a home. Given the small percentage of FHA users who could qualify under conventional criteria, implementation of this proposal will do little to further the Administration's goal of making FHA more competitive with the private sector.

Increased Downpayment for Families Earning Over \$40,000

In offering its various FHA recommendations, one of the Administration's recurrent themes is that FHA is competing unfairly with the private mortgage insurance industry, and that efforts should be made to minimize and/or eliminate this competition.

One such recommendation offered is the proposal to require a minimum 5 percent downpayment for families earning over \$40,000 per year. On its face, Mr. Chairman, it might appear that this is a "reasonable" proposal intended to target FHA's benefits.

However, on closer examination, one finds that this is not actually the case for a number of reasons. First, it is important to remember that only about 14 percent of all homebuyers in 1986 used FHA insurance. Of that 14 percent, only about 25 percent have incomes greater than \$40,000. While those higher income families who use FHA insurance may be able to qualify for private mortgage insurance, the majority of these homeowners have significantly different characteristics than those borrowers using private mortgage insurance.

According to ASSOCIATION data collected through our mortgage finance survey in the spring of 1986, FHA homebuyers possess differing income, age and ownership characteristics than those in the conventional market. On average, FHA homebuyers are over 2 years younger and have annual incomes of about \$10,000 less than homebuyers using private mortgage insurance. Furthermore, we found that FHA borrowers are generally first-time homebuyers. Finally, our survey showed that loan-to-value ratios for conventional market users averaged about 80 percent compared to 92 percent for FHA users.

If a potential homebuying family with an annual income greater than \$40,000 was not able to afford an FHA-required 5 percent downpayment, they would be forced to seek private mortgage insurance in the conventional market. However, if the family was unable to afford a FHA loan, it is unlikely that they could qualify in the conventional market. Most probably, these families would be denied the opportunity to purchase and own a home.

The NATIONAL ASSOCIATION OF REALTORS® is also concerned about eliminating participation of higher-income borrowers in the FHA 203(b) program because these loans act to reduce the average default characteristics of all FHA borrowers through lower loan-to-value ratios. According to HUD statistics, FHA borrowers with lower LTVs, all other things equal, have much lower default rates.

Finally, the ASSOCIATION is concerned about the effects this proposal will have on the secondary mortgage market, specifically the adverse impact on future default risk on FHA mortgage pools which back GNMA MBSs. Changes in

this risk, we believe, would gradually increase the required yields on GNMA MBSs, negatively affect their future price, and ultimately increase the interest rate and/or points charged on FHA loans.

Elimination of Investor and Second Homes

The ASSOCIATION is opposed to any limitation of eligibility in the FHA single-family insurance program to only purchasers of primary (owner-occupied) residences.

In 1986, HUD Secretary Pierce appointed an internal task force to investigate allegations of fraud and abuse in the FHA program. This HUD Task Force revealed that the highest incidents of foreclosures, in proportion to the FHA participant class, were in the investor portion of the FHA program.

Our ASSOCIATION, along with allied housing trade associations, worked closely with HUD to review, comment, and eventually support many of the recommendations made by the HUD Task Force. In fact, a number of these recommendations have already been implemented through agency administrative directives. However, the Task Force never recommended the elimination of the investor and second home portions of the FHA program. HUD and the Administration contend that investor and second home FHA loans are inherently risky and therefore should be excluded from the FHA program. We maintain that this is not a valid argument because such an exclusion would have only a minor impact on the risk to FHA's MMIF. Furthermore, we believe that this proposal is, ultimately, far too drastic a solution to a problem that is already being addressed through tighter administrative standards (as discussed later in this section).

Elimination of investor loans from the FHA program is likely to seriously affect the single-family home rental market. It has been estimated that over one third of the 32 million renters in this country currently reside in one-to-four family residences. Eliminating investors from the FHA program would hurt a substantial portion of the rental market and affect those renters who choose not to live in multifamily dwellings.

It can also be demonstrated that claim rates have peaked for all loans endorsed during 1981 and 1982. Since the claim rates have already peaked due to a period of high interest rates, it is reasonable to conclude that the claim rates for investor/second homes have also peaked.

As for the fraud and abuse reported in this portion of the FHA program, in February 1986, HUD reported that three regions in the country had a substantially higher incidence of investor loan problems. The HUD study concluded that certain FHA field offices had unusually higher claim rates, indicating problems that may have involved fraudulent activities on the part of some investor mortgages. We believe that the appropriate means to address this problem is not to eliminate the investor from the FHA program. Rather, the problem of fraud and abuse should be addressed more directly. The ASSOCIATION commends HUD for taking this approach and points to the 1983-1985 claim rates as reflective of the following actions taken by HUD:

- Underwriting criteria have been tightened
- Appraisal requirements have become stricter;
- The Mortgage Insurance Premium (MIP) has been restructured, resulting in its current form; and
- The Direct Endorsement program, which has lower claim rates than the traditional field of underwritten loans, has been implemented.

CHANGE IN FHA ASSUMPTION POLICY

Easy assumability has been a feature of the FHA-insured mortgage since the inception of the FHA program. It is widely acknowledged that this feature has been instrumental in increasing the marketability of homes with a FHA-insured mortgage. In today's market where most fixed rate conventional mortgages contain "due-on-sale" clauses, the FHA and VA programs are one of the last bastions of fixed payment mortgage instruments which allow assumability.

Especially during periods of rising interest rates the free assumability of FHA-insured mortgages has often substantially enhanced the value of a home. The buyer benefits because he or she can assume a loan below the prevailing market rate. This assumability also translates into a benefit for the seller by increasing the demand and thus value for his/her home.

However, based on a HUD administrative announcement (HUD Mortgage Letter 86-15), this FHA assumption policy was changed on December 1, 1986. The new policy requires a full credit check of any and all borrowers seeking to

assume a FHA mortgage within 24 months of origination or of a previous assumption. HUD will permit lenders to charge up to \$500 for this new credit check. Subject to HUD'S discretion, the loan can be called by the lender if the transacting parties neglect to obtain this credit check. By restricting the free assumability of the FHA loan, this change institutes a "quasi due-on-sale clause.

The NATIONAL ASSOCIATION OF REALTORS® submits that this new restriction on the assumability of FHA-insured mortgages will be detrimental to both sellers and potential buyers of such homes. For example, prospective seller of a home subject to a FHA-insured mortgage cannot, without risking immediate acceleration of that mortgage, sell his or her home to a prospective purchaser who is willing to assume the existing mortgage but is not interested in undergoing an expensive, burdensome, and time-consuming credit check.

This change in the assumability of an FHA-insured mortgage could also have a long-term, negative impact on the FHA-MMIF. According to HUD officials, this new credit check requirement was devised in order to preclude "non-creditworthy" individuals from assuming a FHA mortgage and later defaulting on the payments. However, by requiring this credit check, it is now likely that potential homebuyers who, at one time, were willing to take over the monthly mortgage payments from a seller who was experiencing serious financial difficulty, will no longer be amenable to assuming the FHA mortgage because of the additional cost and time imposed by the new requirement. Therefore, financially-strapped homeowners with FHA-insured mortgages will have few other alternatives but to default on their FHA mortgage. When this occurs, FHA must pay the claim and take title of the foreclosed property. FHA is then monetarily responsible for both the management and disposition of the property.

Based on the average claim rates from 1970 to 1985, it is estimated that in 1986 approximately 860 homeowners would have defaulted due to the delays caused by this new credit check process. According to HUD data, the weighted average mortgage amount was \$52,826 for loans originated in 1984 and 1985. The average loss claim for an FHA mortgage, was approximately 35 percent of the outstanding principal for that same period, or 18,595 per claim. This average claim loss multiplied times the number of homeowners who would default due to the delays caused by the credit check process (i.e., 860 homeowners) would cause a loss to the MMIF of over \$15.9 million. Losses to the MMIF, such as these, clearly could not be maintained on an annual basis without some damage to the FHA Section 203(b) program.

Of a more procedural nature, this fundamental change in the FHA program was made through an administrative announcement known as a Mortgages Letter. The NATIONAL ASSOCIATION OF REALTORS® strongly believes that a change of this type and magnitude should have been made through the federal agency rulemaking process. For this reason, the ASSOCIATION filed a legal suit last October against HUD/FHA claiming that the procedure used to implement this change was in violation of the Administrative Procedures Act (APA). The law suit is presently pending before the Federal District Court for the District of Columbia, and a decision is expected sometime in March.

INCREASE IN THE FHA ARM'S VOLUME CAP

This provision of the FHA program has been monitored very closely by the NATIONAL ASSOCIATION OF REALTORS®. The "cap" amount, based upon a percentage of the total volume of home mortgages insured by FHA during the previous fiscal year, has been and is currently 10% of that volume.

The ASSOCIATION supports an increase in the FHA ARM' volume cap of "up to 20%" as long as there is a corresponding increase in the FHA credit (insuring) authority. We also support legislative report language which specifies that the number of FHA ARM units, at whatever percentage, is NOT a set-aside of FHA credit authority which acts to reduce units for the fixed rate program.

INCREASE IN FHA LOAN LIMITS

The NATIONAL ASSOCIATION OF REALTORS® has long advocated a re-evaluation of the existing loan limits for FHA. As you know, Mr. Chairman, the maximum FHA loan limit for single-family loans is \$67,500, except in HUD-designated high cost areas where the base limit can be increased up to \$90,000. Hawaii and Alaska are special high cost areas, and loan limits in those regions can be increased beyond the \$90,000 limit.

Despite the considerable home appreciation over the past several years, neither the base limit nor the high cost calculation has been updated since 1979. According to the ASSOCIATION'S Existing Home Sales Reports, existing home prices have appreciated by 44.2 percent since 1979. Clearly, the FHA loan limit needs to be readjusted to reflect home appreciation. If the limits were raised to reflect the 44.2 percent appreciation, we estimate that new FHA loan limits would range from \$97,300 to \$129,600.

EXTENSION OF THE SECONDARY MORTGAGE MARKET ENHANCEMENT ACT

The NATIONAL ASSOCIATION OF REALTORS® supports the extension of Title II of the Secondary Mortgage Market Enhancement Act, which is due to expire September 30, 1987. We are especially interested in seeing that the authority granted to the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) to purchase second mortgage loans is extended.

Second mortgages are an increasingly important source of financing for homeownership. Thus, the ASSOCIATION supports extension of this authority for FNMA and FHLMC, and continues to oppose any efforts to weaken the continuing ability of GNMA, FNMA AND FHLMC to provide funds for home mortgages and to respond to market changes.

FAIR HOUSING INITIATIVES PROGRAM (FHIP)

The NATIONAL ASSOCIATION OF REALTORS® fully supports our nation's fair housing laws. We also recognize the use of the enforcement tool of testing if the use of such tools is based upon reasonable and objective standards. Herein lies the basis of our ongoing concern with the Fair Housing Initiatives Program (FHIP) since it was first introduced as part of HUD'S FY1986 budget request.

With this new program the ASSOCIATION became concerned that, for the first time direct federal funds would be used to support testing of real estate practitioners by private self-appointed fair housing organizations without any procedural safeguards or guidelines.

For all of 1985 and into 1986, the NATIONAL ASSOCIATION OF REALTORS® opposed the authorization of FHIP because of the absence of any standards by which the testing component of FHIP would be implemented.

In early 1986, at the behest of House and Senate Banking Committee leaders, NAR began discussions with HUD in order to seek an agreement on FHIP. After 6 weeks of solid discussions, HUD and NAR President Clark E. Wallace signed an agreement which placed NAR's support behind the FHIP program. At the same time, HUD and NAR worked out a fair and balanced set of testing guidelines, which were approved after considerable debate by NAR's Board of Directors in May of 1986. These guidelines assure fair play by both sides. They also assure that federal funds are disbursed to trained qualified testers and that the funds will be spent on authorized activities.

Secretary Pierce of the Department of Housing and Urban Development has agreed to proceed with regulations based on these guidelines as part of the testing program, and has given his assurance that the guidelines will govern both funding and program performance under the testing portion of the Fair Housing Initiatives Program.

Though the NAR Board of Directors prefers that the guidelines be included in the statutory language authorizing FHIP, the Board just last month agreed to a FHIP program which simultaneously "sunsets" both the program and the guidelines. It is eminently fair, Mr. Chairman, that a program of so controversial a nature be looked at by this Committee in the light of experience. The current Senate Committee bill calls for a demonstration program which lasts until September 30, 1989 and then is subject to review as are the guidelines which accompany it. This appears to us to be a solid step in the direction of fair enforcement procedures, and represents a considerable concession by the NATIONAL ASSOCIATION OF REALTORS®.

We believe that such a dual review of the FHIP program and the guidelines will prove useful to the Congressional debate surrounding the guidelines. By allowing the FHIP program and the guidelines to be a demonstration then you, the Congress, can determine whether or not the guidelines proved effective for responsible testing programs.

As real estate practitioners, our position on FHIP has always been premised on the belief that we should be afforded the same kind of protections

that others in our society receive. We have the same aversion and sensitivity to being prejudged as "guilty" of violating the law as any federal employee possibly prejudged through testing as a drug abuser or a private business organization whose employees would be required to take polygraph tests without any shoving of cause or complaint. Are those being tested at risk without even the allegation of a wrongdoing? Are the testing procedures fair? Are the testers independent and qualified? The proposal we recommend would aid in producing the right answers in the interest of all concerned and involved.

FHA MULTIFAMILY ISSUES

Mr Chairman, I would now like to address three issues dealing with federally-assisted multifamily housing programs in which the NATIONAL ASSOCIATION OF REALTORS® and its affiliate the INSTITUTE OF REAL ESTATE MANAGEMENT (IREM) take interest. Prepayment of FHA-Insured Multifamily Project Loans, Multifamily Housing Preservation Loans, and Tenant Participation in Multifamily Housing Projects.

Prepayment of FHA-Insured Multifamily Project Loans

In the mid-1960's, the federal government began to use private ownership as a vehicle to provide subsidized multifamily housing for lower-income families. Through programs such as the SEC. 221(d)(3) Below-Market Interest Rate (BMIR) and the SEC. 236 FHA-Subsidized Multifamily Housing Program, the federal government provided a low interest-rate subsidy and a federally-insured mortgage to the owner who agreed, in exchange, to provide housing to low- and moderate-income tenants at below-market rents.

As an additional incentive the federal government also constructed these programs so that many owners were contractually guaranteed the right to prepay the mortgage 20 years after the loan origination date and terminate the user restrictions in order to convert the property to other purposes. Since most of these privately-owned multifamily properties were developed between 1965 and 1975, particularly during the period between 1970 and 1975, contracts are now starting to approach the 20-year date by which owners may request permission from HUD to prepay the mortgage.

Although some project owners are expected to exercise their legal right to prepay the mortgage and use the property as they choose, HUD estimates as many as 75 percent of eligible project owners will not prepay primarily because their projects are now located in low- and moderate-income areas and their prospects for serving higher income markets would be negligible. For those projects which would prepay, some will still have SEC. 8 subsidies attached to their units. HUD expects that based on a very low activity of "opt-outs" in the past, many projects with SEC. 8 subsidies will continue until the contracts expire.

The partnership between private owners and the federal government has benefited low- and moderate-income housing residents and has helped minimize the pressure on the supply of unassisted housing affordable to other low-income households. While the NATIONAL ASSOCIATION OF REALTORS® and IREM believe federal policy should work toward maintaining these relationships by renewing assistance contracts and providing appropriate inducements for continued participation by private owners, we oppose any attempts to change the terms of an existing contract by disallowing an owner's right to prepay their multifamily housing loan. Any retroactive action to disallow an owner's contractual right to prepay a multifamily loan would have the effect of eliminating any possible future incentive for the private investor or owner to participate in federal housing programs.

At the same time, we believe options should be explored whereby the needs of the tenants can be met while maintaining the legitimate rights of the owners to dispose of their properties. Mr. Chairman, we look forward to working with subcommittee members and staff in achieving this goal.

Multifamily Housing Preservation Loans

Based on a 1984 study, it is estimated that the value of the existing stock of SEC. 221(d)(3) BMIR, 221(d)(3) rent supplement, and SEC. 236 projects is as high as \$10 billion. It is essential that this significant investment be preserved. With the provision of a comparatively modest capital improvement loan program, billions of dollars in badly needed low- and moderate-income housing stock can be saved.

Since 1975 the ASSOCIATION and IREM have been concerned with the lack of proper replacement reserves for federally-assisted multifamily properties.

HUD has made efforts in this area, however, the capital improvement needs are escalating at a rapid rate. While there may be other sources available for financing these capital improvements, they are not really viable alternatives for these subsidized projects.

In essence, there simply is not an adequate source of funding to preserve these subsidized units. Practically owners cannot provide total funding of capital improvements without outside financial sources. Consequently, the NATIONAL ASSOCIATION OF REALTORS® and the INSTITUTE OF REAL ESTATE MANAGEMENT support the concept of a capital improvement loan program; however, we cannot support the Multifamily Housing Preservation Loan provision as it has appeared in House housing authorization legislation since 1984, and as it is currently written in H.R. 4, the Housing and Community Development Act of 1987. We, therefore, respectfully submit the following comments to the Subcommittee on four specific provisions of this proposal contained in the House bill.

Realizing the limited financial resources of owners, the constraints placed on the rent increases in federally-assisted projects, and the limited cash flow to owners of these properties, we believe that the majority of the owners would find it difficult to provide a 20-percent downpayment on a capital improvement loan. Because of these constraints, there will be cases where owners will need 100 percent of the loan available from the federal government.

We would prefer the elimination of any owner downpayment requirement; however a 10 percent downpayment on a capital improvement loan rather than the 20 percent requirement would be more reasonable. Also, the language giving HUD the ability to waive the downpayment requirement should be added.

We do not believe that the owner should be required to maintain the property as low- and moderate-income beyond the existing requirement specified by the regulatory agreement. The owner will be contributing to the capital improvement costs, and has made a significant investment in the property for current and future residents.

We would prefer that the language be altered so that the owner is only obligated to maintain the low- and moderate-income nature of the project until the term of the regulatory agreement. However, if this cannot be accomplished we recommend the following:

"If the capital improvement loan is applied for by a given owner/agent for a specific property, the low- and moderate-income character of the project would be maintained until the maturity date of the capital improvement loan."

For example, our concept this loan would be a five to seven year (short-term) loan. Therefore in this example, the low- and moderate-income character of the project would be extended from five to seven years beyond the current term of the low- and moderate-income nature of the property.

We support the Secretary of HUD exercising close scrutiny over the project's financial resources and requiring that the owner make contributions, through replacement reserves and other sources toward the provision of project capital improvements. However in determining the interest rate and duration of the loan, we recommend that a careful examination be made of the projects ability to repay the loan. In minimizing the cost to the federal government we recommend that those projects which can manage a higher interest rate are provided loan of this nature. The interest rate should be less than 6 percent only in those cases where the majority of tenants would be affected by significant rent increases.

While we realize the critical need for the proposed legislation in preserving the supply of low- and moderate-income rental housing we also want to express our concern about funding new government programs which may add to the ever-growing federal deficit. We strongly recommend that this Congress consider, when possible, redistributing existing monies within current or previous HUD appropriations and recaptures to fund the initial capital improvement loan program appropriation. This action is greatly preferred over appropriating new program monies. A danger always exists that a new program, despite its initial modest beginnings, will over the years grow into a major budgeted program. We would caution against this kind of a development.

Tenant Participation

After reviewing H.R. 4, the ASSOCIATION and IREM cannot support SEC. 244 of the bill, the provision on tenant participation in multifamily housing projects, as this is clearly an addition to the existing law as stated in the

Housing and Community Development Amendments of 1978, Section 202(a)(b) and (c).

The proposed section allows tenants in SEC. 202 housing to comment upon various areas in addition to the current law which allows tenants of SEC. 236 and 221(d)(3) RMIR and rent supplement, or tenants of projects that have been sold subject to HUD-insured or HUD-held mortgages to provide comments

It is proposed that these tenants be allowed to comment upon the transfer of physical assets, an application for capital improvement loan, and where the Secretary proposes to sell a mortgage securing a multifamily housing project. The proposed language also strikes a previous provision that permitted the Secretary to choose whether or not to allow tenants to comment by stating, "where the Secretary deems it appropriate." Conversely existing law allows tenant input on owner requests for rent increases, partial release of security conversion of residential units to any other uses including commercial use or use as a unit in condominium or cooperative or major physical alteration. We believe that these provisions conflict with the principles that comprise the rights of private property ownership.

It is important to note that the proposal for inclusion of "transfer of physical assets" was removed from the Housing Act of 1978 (via amendments passed in 1980) and that language specifying, "where the Secretary deems it appropriate", was added at that time. These practical changes were the result of efforts to relieve project sponsorship of burdens that would be tied to the managerial process.

These restrictions on owners could create disincentives for the construction of new multifamily projects and may eventually affect all forms of HUD property. Additionally because mortgage and regulatory contracts do not include provisions for tenant participation, the implementation of this statute will have the retroactive effect of altering many existing contracts. In a time when tax reform changes and deteriorating physical conditions already have had a negative effect on the ownership of federally-assisted properties, we recommend that Congress not add disincentives to the ownership of federally assisted properties.

The phrase "where the Secretary deems appropriate" should be left as it currently exists in law. We also urge that Congress examine the impact of the 1978 Housing Act, as it relates to tenant participation, on the inventory before it changes the current tenant participation legislation.

LEAD-BASED PAINT HAZARD ELIMINATION IN GOVERNMENT-ASSISTED/INSURED HOUSING

One final matter that the ASSOCIATION would like to provide some input to the Subcommittee concerns the issue of lead-based paint hazard elimination in government-assisted and government-insured housing. As the Subcommittee members are probably aware, the Lead-Based Paint Poisoning Prevention Act was amended in 1973 in order for HUD "to establish procedures to eliminate, as far as practicable, the hazards of lead-based paint poisoning".

We believe that the provision pertaining to lead based paint hazard elimination in H.R. 4 could impose substantial costs to property owners and possibly threaten the viability of federally-assisted multifamily housing programs and potentially, the FHA single-family mortgage insurance program.

While the ASSOCIATION opposes any change that substantially threatens the continued availability of these important programs to the public, we certainly recognize that lead poisoning can be a serious public health problem and that lead-based paint can contribute to this problem when ingested by children. To further address this problem, HUD promulgated, in January of this year, new regulations which establish strict program-specific requirements to eliminate immediate hazards associated with lead-based paint. These regulations will impose substantial new costs to property owners, yet maintain the practicability standard established under the Act. In light of this recent action by HUD, we believe it both inappropriate and unnecessary for Congress to take further action at this time.

CONCLUSION

Mr. Chairman, I appreciate the opportunity to present the ASSOCIATION'S views on these key housing issues, and will be pleased to respond to any questions you or the Subcommittee may have.



Sub Comm

MAR 12 1987

CALIFORNIA ASSOCIATION OF REALTORS

March 11, 1987

The Honorable Henry Gonzales
Chairman, Housing and Community Development Subcommittee
Banking, Finance and Urban Affairs Committee
2413 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman:

The California Association of REALTORS® respectfully submits the attached testimony, in conjunction with that submitted by the National Association of REALTORS®, to the House Subcommittee on Housing and Community Development. We request that this testimony on HR4 and other mortgage credit issues be made a part of the Hearing Record of March 12, 1986.

Thank you very much for the opportunity to express our concerns on these important issues. Should you require any further information, please do not hesitate to contact Joel Singer at (213) 739-8269.

Sincerely,

Jack Paulson

Jack Paulson
President
California Association of REALTORS®

JP:hgb

**Written Testimony
to the House Subcommittee on Housing and Community Development
of the Committee on Banking, Finance and Urban Affairs
on the Subject of the Subcommittee's Consideration of HR4
and other Related Housing Credit Issues
submitted by Jack Paulson, President
California Association of REALTORS®**

I. Introduction

As President of the California Association of REALTORS® -- a statewide trade association representing 115,000 real estate licensees in the state of California -- I am grateful for the opportunity to present our perspectives on the proposed Omnibus Housing Bill, H.R.4. This document will also touch on 1988 budget proposals for the federal housing credit programs, as well as on related provisions under consideration by Congress. This testimony is submitted in conjunction with and in support of that presented by the National Association of REALTORS®. The business activities of our membership involve the brokerage of real property as well as assisting buyers in the process of locating financing sources. It is this business focus that motivates C.A.R.'s active interest in proposed changes to the FHA and other vitally important housing credit programs.

II. HR 4

A. FHA Provisions

As the Subcommittee is well aware, 1986 proved to be one of the most turbulent years yet experienced by the FHA in its 52 year history. Lending activity reached record levels due both to declining interest rates and more stringent underwriting guidelines imposed by conventional lenders. Simultaneously, the agency found itself under repeated attack from forces seeking to curb its involvement in the mortgage market. The repeated lapses of credit and operating authority, internally imposed restrictive operational changes contained in mortgagee letters, and other attempts to undermine this crucially important housing program must be rejected.

C.A.R. is deeply concerned over these recent attempts to reduce the operational scope of FHA, given the critical role the FHA plays in California's housing market. As private lenders and secondary market investors substantially tightened underwriting guidelines over the past year and a half, the FHA and VA programs moved in, providing thousands of first-time and moderate-income homebuyers with the only viable source of affordable mortgage credit. According to C.A.R. data, the FHA, in conjunction with the VA, increased its share of newly-originated mortgages in California from 16 percent in 1984 to 24 percent in 1986, despite the presence of statutory loan limits that restrict the usage of the FHA/VA programs in the state's high priced housing market (in 1986, the California median home price of \$131,530 exceeded the nationwide median by nearly 65 percent).

The vital importance of the FHA program becomes even more salient when presented in tandem with the financial profile of the state's FHA homebuyers in 1986. The median income of FHA homebuyers was nearly \$17,000 less than that of buyers using conventional financing. In

addition, these moderate-income homebuyers were able to secure the dream of homeownership by taking advantage of lower contract interest rates, lower downpayments and substantially higher loan-to-value ratios available with FHA assisted housing credit. Finally, and perhaps most importantly, fully 62 percent of all newly-originated FHA mortgages were for first-time buyers, compared to only 34 percent for all newly-originated conventional mortgages.

Newly-Originated Conventional vs. FHA Mortgages: 1986

<u>Characteristic</u>	<u>Conventional</u>	<u>FHA</u>
Median Interest Rate	10.25%	9.5%
Median Loan Amount	\$118,020	\$78,000
Median Sales Price	\$149,997	\$83,250
Median Downpayment	\$30,800	\$5,000
Median Loan-to-Value Ratio	79.9%	94.4%
Proportion of First-Time Buyers	34.5%	62.3%
Median Annual Household Income	\$52,900	\$36,000

Clearly, the homeownership dreams of thousands of California homebuyers would not have been attained without the existence of an active and viable FHA. These statistics illustrate the vital role that the FHA mortgage insurance program serves in assisting California's first-time and moderate-income homebuyers. The market segment served by FHA is composed of those whom are most affected by the state's acute housing affordability problem. In view of the fundamental importance of this program to the state, C.A.R. is extremely concerned about any and all proposals that would severely constrain the FHA's presence in the home mortgage market.

1. FHA Credit and Operating Authority

As we are only too aware, the FHA was forced to shut down six times in fiscal year 1986 as the program's national importance and high public visibility was used as "bait" to secure passage of unrelated legislation. These repeated expirations of FHA's credit and operating authorities proved disastrous for a mortgage market already burdened by unprecedented loan volume, and forced needless delays and additional costs on hundreds of thousands of homebuyers nationwide. In 1987, the FHA is unlikely to be subject to such political maneuverings; however, C.A.R. is extremely concerned about the prospects for further shutdowns in fiscal year 1988.

The Administration's FY 1988 budget proposes to reduce FHA's credit ceiling from \$100 billion to \$70 billion in 1988. This proposal falls far short of HUD's projections for the insurance authority necessary to meet forecasted demand. This sharp reduction in the credit ceiling would once again subject the FHA to the specter of repeated shutdowns. Moreover, FHA is also facing expiration of its operating authority at the end of the current fiscal year.

Given the myriad of costly market disruptions that occur when the FHA has to cease operation, and in light of the projected strong demand for the agency's services, C.A.R. strongly recommends that the agency

be given a long-term or permanent extension of operating authority and sufficient credit authority to operate without interruption. The Association supports HRI228 which would establish the permanent extension of FHA operating authority. For FY 1988, we recommend that the agency's credit authority be set at \$100 billion. Together, these measures would reduce the agency's exposure to those who wish to use it as a political "football" and provide adequate funding to eliminate the potential for future shutdowns in any interest rate environment.

2. MIP Increase

The California Association of REALTORS® has adamantly opposed the recurrent efforts of the Administration to increase the mortgage insurance premium (MIP) on FHA single-family home mortgages from 3.8 percent to 5 percent. Not only is such a fee increase entirely unnecessary to bolster the actuarial soundness of the FHA insurance fund, it will have only minimal effectiveness in reducing the budget deficit. In addition, this fee increase will exact a tax on California's first-time and moderate-income homebuyers of approximately \$144 million in FY 1988 alone (based on an estimated 150,000 FHA loans in California in 1988, and a median MIP increase of \$960).

The Association commends the House's past opposition to this unwarranted proposal, and supports legislation that would cap the FHA mortgage insurance premium at 3.8 percent. In fact, C.A.R. believes that the current level of FHA reserves could actually warrant a reduction in FHA insurance premiums.

3. Investor Loans

Last year, the House adopted a prohibition on FHA investor loans. Similarly the Administration's FY88 budget proposes legislation that would limit FHA insurance to principal residences only. C.A.R. believes that the exclusion of investor and second homes from this program is a drastic and unnecessary response to the fraud and abuse problems experienced in the FHA single-family program. Although the highest incidence of recent claims losses has been in the investor program, the agency has already implemented many of the corrective recommendations proposed by the HUD Task Force assigned to study the problem. C.A.R. believes that the problems of fraud and abuse in FHA single-family program can sharply be reduced by recently implemented enforcement procedures, and that legislative action to reduce the scope of the FHA program is entirely unwarranted.

Moreover, the vital role played by FHA in the single-family rental market should not be overlooked. Approximately one-third of all renters live in single-family homes, and a significant number of these rental homes remain viable investment properties as a result of the availability of FHA insurance. Eliminating FHA investor loans would choke off the supply of this type of housing, forcing many renters, especially those with larger families, to endure the cramped conditions of multifamily housing.

4. Restrictions on Assumability of FHA Mortgages

The first and perhaps the most serious threat to the long-term viability of the FHA program, was a fundamental change in the FHA mortgage instrument that has eliminated the full assumability of FHA loans. Specifically, effective December 1, 1986, HUD now requires all homebuyers assuming an FHA loan within two years of its endorsement by FHA, or within two years of a prior assumption, to undergo a full credit check and meet the same underwriting criteria as new borrowers. This provision has resulted in an effective due-on-sale clause on FHA mortgages, eliminating what has been one of the most important features of the FHA mortgage for more than 50 years. The full assumability of FHA loans facilitates homeownership during periods of high interest rates, and often represents the only viable source of financing for thousands of homebuyers. In addition, full assumability may actually serve to reduce default risks to the FHA insurance fund by facilitating the sale of homes by homeowners facing economic hardships.

Thus, the recent restrictions on assumability are likely to have the perverse effect of increasing default risks to the FHA insurance fund, while at the same time knocking thousands of potential homebuyers out of the market. Many first-time and moderate-income homebuyers will have difficulties paying the \$500 credit check fee permitted under the new guidelines. This problem will be particularly severe in California, where downpayment and closing cost requirements are already burdensome. Moreover, because current guidelines impose no time limits for the approval of potential assumptors, the restrictions on assumptions will force costly delays on homeowners who seek relief from economic hardships by allowing their FHA loans to be assumed.

C.A.R. strongly supports N.A.R.'s proposal to legislatively roll back this policy change. Moreover, C.A.R. urges that any future regulatory changes of this magnitude be subject to legislative approval.

5. Increase in FHA ARM Volume Cap

HR 4 proposes to increase to twenty percent the FHA-ARM allocation. C.A.R. supports this only with specific language stating that this allotment is not, in any way, intended to limit the volume of fixed-rate loans that FHA insures. As a further approach, C.A.R. urges Congress to proportionately increase the overall level of FHA credit authority.

B. Secondary Mortgage Market Proposals

1. User Fees on FNMA/FHLMC

There have been repeated attempts during the last several years by the administration to impose user fees on federal housing credit programs. Last year in its FY87 budget proposal, the Administration proposed user fees of 10 basis points on FNMA debt issues in 1987, with further increases to 30 basis points in 1988, and 50 basis points in 1989. Additionally, FHLMC's and FNMA's mortgage-backed securities would have had a 5 basis point fee, rising to 10 basis points in 1988 and 15 basis points in 1989. It was also proposed that GNMA's

guaranty fee be raised from the current six basis points to twenty basis points by 1988. The cost of these user fees would be passed on to homebuyer in the form of higher interest rates in the primary market. It has been estimated that the combined effect of these user fees, when fully implemented, would be to raise mortgage rates by 1/2 of one percent, slash housing starts by 50,000 units per year, and reduce home sales by 100,000 units per year.

Clearly, user fees on government-sponsored enterprises are seen by some as a first step towards the goal of privatization of these entities. C.A.R. has a consistent record of opposing the imposition of any new or increased user fees on federal housing credit programs. While the FY88 budget proposal does not include user fees for FNMA/FHLMC, these issues have not disappeared. Last June the House passed a streamlined version of the omnibus housing bill, HR 1, which would have prohibited user fees charged to FNMA or FHLMC for issuances of securities or debt.

C.A.R. endorses the legislative prohibition on new or increased user fees contained in HR4. These charges are unwarranted and would adversely impact both our state's economy and thousands of homebuyers if imposed. Moreover, user fees simply represent a tax increase differing in name only.

2. GNMA Fees

Recently, the Administration also attempted to raise GNMA's share of its 50 basis point fee from six to ten basis points. The higher fee was purportedly necessary to boost GNMA's reserve fund, but by most estimates GNMA's reserves are more than adequate--in 17 years the agency has suffered losses of only \$10.6 million, and currently maintains reserves in excess of \$1.35 billion. This unnecessary increase would have actually only served to further restrict the availability and affordability of both FHA and VA loans. It has estimated that a fee hike of this nature would result in an increase of \$189 on an average FHA loan of \$65,000 - \$70,000.

In addition to forcing increased costs on first-time, moderate-income and veteran homebuyers, the fee increase would also squeeze profit margins for lenders, forcing some to reduce FHA/VA lending activity or withdraw from the government-backed loan market altogether. The Mortgage Bankers Association notes that not all of the increased costs will be passed along to FHA/VA homebuyers because of competition, and the larger the proportion that the lender must assume, the greater the incentive for the lender not to write FHA/VA loans. On the other hand, if the majority of the cost is passed on to homebuyers, the GNMA fee increase would have added another \$35-40 million to the housing taxes imposed on FHA and VA homebuyers by various budget proposals and operational changes.

Although the Administration rescinded this proposal, C.A.R. opposed any future attempts to raise revenues through taxes on FHA/VA homebuyers. We recommend that Congress prohibit future GNMA fee increases. Furthermore, the Association believes that any future proposed increases be subject to legislative approval. It is imperative that these policy changes be open to public scrutiny and comments.

III. FY1988 Budget Proposals

A. FHA Related Proposals

The Administration's FY1988 budget proposals touch on several of the issues discussed earlier in this testimony. In addition to the MIP increase and proposals to reduce FHA's credit authority, the Administration has offered several other initiatives designed to drastically reduce the scope and effectiveness of the FHA program. Proposals for legislation would:

- Require at least a 5 percent minimum downpayment for families earning \$40,000 per year, and implement a sliding scale of increased downpayments for higher incomes.
- Preclude the financing of closing costs in the FHA mortgage amount.
- Eliminate the one percent cap in lender origination fees.
- Use conventional underwriting criteria to qualify FHA applicants.

1. Minimum Downpayment Requirements

C.A.R. believes that the proposal for increasing the downpayment requirement for families earning \$40,000 or more is entirely unwarranted. Although the Administration claims that this proposal is necessary to eliminate unfair competition between FHA and private mortgage insurers, the comparative profile of FHA versus conventional homebuyers presented earlier clearly illustrates that the market segment served by FHA is fundamentally different from that served by private mortgage insurers. These programs are not substitutes, particularly in high cost markets such as California where affordability problems are acute even for prospective homebuyers earning in excess of \$40,000. For many California homebuyers, the FHA is the only source of low-downpayment mortgage credit. It must also be emphasized that these higher income borrowers help to mitigate the risk posed by insuring lower income borrowers, thus keeping the FHA insurance fund operating on a self-supporting, actuarially sound basis.

2. Closing Costs

The proposal to eliminate the financing of closing costs over the life of the loan would increase the cash requirements for the FHA homebuyer dramatically. Although the proposal does not go so far as to prohibit the financing of the mortgage insurance premium as in FY 1987 proposals, it would nevertheless increase the cash required to close an FHA loan for the typical California homebuyer by more than \$2,000. By increasing the cash required to close, the proposal literally closes the door on homeownership for thousands of California's moderate-income and first-time homebuyers for whom the FHA's low downpayment financing program is crucial.

3. Lender Origination Fees

The Administration's proposal to lift the current one percent cap on lender origination fees and post-endorsement fees would result in further cost increases to the FHA homebuyer. Under this proposal, buyers could face lender origination fees of up to 1.5 percent or more, depending on local market conditions, adding yet another layer of increased costs for FHA homebuyers and further inhibiting the program's ability to serve its intended market.

4. Changes in Underwriting Criteria

The Administration's proposal to conform FHA underwriting criteria to conventional market standards is firmly opposed by C.A.R. The current criteria used in underwriting FHA loans is a 38 percent housing expense-to-income ratio with a long-term debt-to-income ratio of 53 percent. Conventional lenders currently use a drastically lower 25/33 standard for low-downpayment loans. Conceived with the intention of further rendering the FHA more competitive with the private sector, this proposal is by far the most counterproductive advanced yet. It alters the fundamental tenet of the FHA program, which is to provide affordable, low-downpayment mortgage financing to first-time and moderate-income homebuyers who cannot qualify in the conventional market.

This proposal would preclude a substantial number of potential homebuyers from ever achieving their homeownership dreams, and would be particularly disastrous in California's high-priced housing market. As illustrated earlier, California FHA borrowers earn substantially less income than those in the conventional market, and purchase homes in a high-priced market that forces them to assume larger amounts of debt than the rest of the nation's FHA buyers. This pushes them to the limit of the current FHA underwriting standards. C.A.R. urges that this proposal be vigorously opposed by Congress and that no changes be made to FHA underwriting criteria that are contrary to the expressed purpose of the organization.

5. Summary of Budget Proposals for FHA

It has been estimated that the combined effect of these proposals would increase the cash requirements to close an FHA loan by \$5,000. In California, high housing costs would boost the cash demands on homebuyers even farther. In conjunction with the proposed imposition of conventional debt-to-income underwriting ratios, these program changes would render the FHA entirely unable to serve precisely those individuals for whom the program was developed--first-time and moderate-income buyers. Although the Administration claims that the FHA unfairly competes with private mortgage insurers, these proposals would prevent the FHA from serving its intended market and would actually force the agency to compete for the same borrowers currently served by PMI--buyers with ample cash and higher incomes.

Clearly, the FY 1988 budget proposals for FHA are based on a desire to sharply scale down the scope and effectiveness of this vital program, and not on any sound economic or financial analysis. If these proposals are enacted in total, it would result in the de facto privatization of FHA, a goal long sought by this Administration.

C.A.R. commends Congress for its past rejection of these restrictive and unwise proposals, and urges continued resistance to any efforts designed to scale down or eliminate this vitally important program which has been the foundation of Federal policies that have helped millions of Americans achieve the dream of homeownership.

B. Secondary Market Proposals

C.A.R. opposes the Administration's proposal to limit the sizes of mortgages available for purchase by FNMA and FHLMC to the lesser of \$153,100 or the 75th percentile of all home sales in the specific market. This proposal would increase housing costs as well as disrupt the secondary market. FNMA has estimated that the average limit under the proposal would drop by 22 percent to \$119,600, with the reduction in certain markets exceeding 40 percent. These proposed changes come at a time when the public secondary mortgage market has taken on increasing importance. Experts contend that private mortgage conduits would be unlikely to fill gaps in economically distressed areas as well as the low-density areas that FNMA and FHLMC would be restricted from serving. Moreover, these experts believe that the creation of different maximum mortgage amounts for each market would disrupt the unity and efficiency of the national mortgage market.

Nowhere would the impact be as adverse as in California, where home prices exceed the U.S. median by 60 percent. As described earlier, the prices in the California housing market deviate widely from the rest of the country. C.A.R. predicts that this trend will continue with home prices continuing to be significantly higher than the rest of the country well into the year 2000. Not only would California homebuyers be severely restricted by the mortgage ceiling but would suffer from the differential between its mortgage markets and other states' mortgage markets.

IV. Other Issues

C.A.R. would like to take this opportunity to address other pressing issues that are pertinent to the efficient and effective operation of these housing credit and secondary mortgage market agencies.

A. Increase in FHA Loan Limits

As was detailed earlier, California FHA homebuyers are severely restricted by the current high-cost area loan limit of \$90,000. C.A.R. notes that the base limit and high cost calculation have not been altered since 1979, while home prices in the state have appreciated by nearly 60 percent since that time. Until this limit is increased, participants in the program will find themselves with a highly limited market from which to choose. The loan limit not only restricts the number of homes available for purchase with an FHA Loan, but also causes severe geographical distortions due to the substantial variation in home prices in various regions. The affordability problems are greatest in coastal urban centers, and yet the FHA program is almost entirely unable to assist first-time and moderate income buyers in these markets. Median existing housing prices in the San Francisco Bay Area were \$163,255. Los Angeles registered a median price of \$131,584, San Diego recorded \$118,273, and Orange County recorded \$152,857. Clearly FHA buyers in California are priced out of the market.

B. Extension of the Secondary Mortgage Market Enhancement Act

C.A.R. also supports extension of Title II of the Secondary Mortgage Market Enhancement Act, which grants FNMA and FHLMC authority to purchase second mortgages. Due to sunset September 30, 1987, this provides these agencies with flexibility to respond to market changes. In times of rapidly rising interest rates, second mortgages provide buyers with an important source of financing homeownership. In 1982, 48 percent of all financing arrangements in California involved some form of junior lien. Although in 1986 interest rates were at low levels, 8 percent of all financing arrangements in 1986 involved this type of transaction.

Thus, C.A.R. calls for long-term extension of this authority so that these agencies can retain their ability to respond to homebuyers' needs in an adverse interest rate environment.

C. National Housing Policy

C.A.R. is highly alarmed over these repeated attempts to reduce and render impotent these vital housing assistance and secondary mortgage market agencies. In recognition of their vital importance to the state and the nation as a whole, C.A.R., in conjunction with N.A.R., MBA, and NAHB, appeals to Congress to develop a formal National Housing Policy in order to provide a reasoned framework which will address this nation's housing needs in a coherent, cogent and continuous manner. The policy constitutes a long overdue crystallization of the government's commitment to housing. By enacting such a policy Congress will be acknowledging the need for these agencies to serve the moderate-income and first-time buyers whose housing needs are largely ignored by the private sector. And only by enacting such a policy will Congress be acknowledging that the vital role of the federal government in housing should not be administered in the piecemeal, disjointed and seemingly contradictory manner that it has been.

V. Conclusion

The California Association of REALTORS® appreciates this opportunity to submit testimony on the proposals to address the nation's housing needs. We urge that the issues raised in this letter be adequately addressed in the final legislation reported to the Committee on Banking, Housing and Urban Affairs.



City of Detroit Executive Office

Coleman A. Young, Mayor

STATEMENT OF
THE HONORABLE COLEMAN A. YOUNG,
MAYOR, CITY OF DETROIT

CONCERNING THE REAUTHORIZATION OF
COMMUNITY DEVELOPMENT BLOCK GRANTS
AND
URBAN DEVELOPMENT ACTION GRANTS

SUBMITTED TO THE
HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS

March, 1987

Mr. Chairman, and Members of the Subcommittee on behalf of the City of Detroit, Mayor Coleman A. Young submits this testimony for the record in support of the reauthorization of housing and community development programs. The City of Detroit supports a three year authorization of the Community Development Block Grant (CDBG) program at the full funding level of \$3.4 billion. The City also supports the continuation of the Urban Development Action Grant (UDAG) program at the funding level of \$440 million.

CDBG and UDAG are essential programs which have brought about significant community development activities and stimulated economic growth and development in Detroit. These are important programs that must receive strong commitment and support from the Federal government. In Detroit the programs are targeted to benefit low/moderate income persons and benefits that pool of recipients specifically, while benefiting the City as a whole.

Detroit has experienced an economic downturn over the past several years. The crisis in the automotive industry left the City in dire straits. Through the use of federal money, such as CDBG and UDAG, the City has been able to diversify its economy and begin turning its economy around. These are economic programs that mean a lot to the City and they have achieved their intended goals.

Historically, the Federal government has been turned to for

assistance in times of crisis. There is a crisis in cities across the nation today. Hopefully there will come a day when cities do not have to rely upon Federal assistance programs, but that day is not here. Detroit needs these programs to revitalize and sustain its economy.

Projects undertaken in Detroit through CDBG and UDAG have given people hope during these rough economic times. These programs have brought housing downtown to a once eroded inner-core of the City. They have also helped to create new industries in Detroit.

Federal support for the CDBG program has declined significantly over the past several years. Detroit has seen a continued reduction of its CDBG entitlement since 1980. In fiscal year 1980, Detroit was allocated \$64 million. The City's fiscal year 1986 allocation was \$43 million. This represents a thirty-three (33) percent or \$21 million reduction in just seven years. We recently had to rely on \$7.6 million from an already limited general fund for several programs normally funded with CDBG monies. Those City programs that have been cut to adjust for CDBG funding decreases directly affect people.

The Administration's budget proposal recommends that state and local governments meet their own local community and development needs. Although the Administration cites CDBG as the principal vehicle for continued federal support, it proposes to re-

duce the total resources for CDBG in fiscal year 1987 and 1988 and to broaden the scope of the program.

The Administration supports new construction as an eligible CDBG activity. An expanded CDBG program at a decreased funding level would be detrimental to the program. The proposed change would result in a real reduction in overall housing funding. Those programs that have historically provided housing construction assistance should be maintained, yet they are being proposed for reduction or elimination.

Detroit has demonstrated prudent use of its CDBG entitlement over the years. We have designed and implemented a balanced economic, neighborhood, and housing development program to promote decent housing, stabilization of neighborhoods, and economic opportunities that principally benefits persons of low/moderate income and that aid in the prevention or elimination of slums and blight. It is estimated that 75.8 percent of the City's CDBG program funds will benefit persons with low/moderate income in 1987.

The median income level in Detroit is substantially below the low/moderate income limit. For persons with low/moderate incomes, we have made use of funds to rehabilitate or repair both owner occupied and rental units; to provide public services, and to create job opportunities. Activities have also been undertaken to increase the tax base and make the City attractive for

investment. This is an indirect benefit to all residents of the City.

The four largest activity categories in our CDBG program are the rehabilitation of residential units, commercial strips and community buildings for use in public service (32 percent); the demolition of dangerous buildings to eliminate blight (26 percent); economic development for the creation of job opportunities (17 percent); and assisting established public service agencies (8 percent).

The primary objectives of the Federal CDBG program are to develop viable cities by providing decent housing, good neighborhoods, and economic opportunities, principally for persons with low/moderate income. Detroit's CDBG program is designed to fulfill the goals of the federal statutory objectives. Our CDBG program has been designed to achieve the following objectives:

- Stimulate private investment to create new jobs and to retain and upgrade existing jobs for all City residents.
- Stimulate private residential investment to provide new and rehabilitated housing.
- Upgrade the existing housing stock, eliminate or rehabilitate substandard dwellings, and prevent the deterioration of older, but good existing housing.
- Improve neighborhoods, particularly deteriorated neighborhoods, by eliminating blighting influences and improving housing, streets and sidewalks, alleys, lighting, recreational and other neighborhood facilities.
- Improve commercial areas including neighborhood shopping areas, shopping centers, and the Central Business District.

- Coordinate public services with the physical development program.

Through the use of CDBG funds we have made substantial progress in carrying out CDBG program objectives.

The home rehabilitation program is designed to upgrade the existing housing stock, particularly that part of the stock owned by persons who cannot afford to improve their homes without assistance. Our Program encourages homeowners and landlords to invest in property improvements. It also aims to prevent housing deterioration which leads to neighborhood deterioration.

Grants are provided to persons with lower incomes, and low interest loans are provided to persons who are able to invest in their properties. During the period between 1982 and 1986 the assistance provided by the City resulted in the rehabilitation or repair of over 6,000 housing units.

The neighborhood improvement and development program improves public facilities in existing neighborhoods and eliminates blighted buildings throughout the City, it also prepares land for new housing and public facilities in areas where blight is extensive.

The City accomplishes program objectives through sidewalk, curb, lighting and street improvements. Street tree plantings are also undertaken on a limited scale in a relatively large number of neighborhoods. Major public improvements have been undertaken in large neighborhoods where a comprehensive develop-

ment program is underway. Blighted and dangerous buildings are demolished throughout the City. Over 6,700 dangerous buildings were demolished between 1982 and 1986.

The City's economic development/commercial area improvement program has stimulated private investment in Detroit to create new jobs and to retain existing jobs. The program has improved commercial areas, including neighborhood shopping areas, large shopping centers, and the Central Business District. It has also stimulated private investment in housing in the City.

Under the program, land is bought and prepared for resale to industrial and commercial businesses and housing developers. Low interest loans and incentive grants are offered to businesses to improve their properties. Public rights-of-way are improved in business areas. Businesses and investors are assisted in developing financial packages combining private and public resources for mutual private and public benefit.

Some of the significant accomplishments of this program include the development of the Central Industrial Park including a new General Motors assembly plant, the preparation of land for industrial development in the Connor Lane project, the preparation of land for residential development in the Jefferson/Chalmers, Elmwood Park No. 2, and Forest Park/Leland Orleans projects, the organization of the Metropolitan Center For High

Technology, and the provision of loans and incentive grants to over 100 businesses.

The public services program reinforces the physical development activities by providing funds for landlord/tenant counseling, spouse abuse counseling, and certain other services. During the 1986 program year, mental health services were provided to almost 1,100 people. Comprehensive health services were made available to over 81,000 patient visits. Counseling and/or shelter was provided to over 2,000 victims of domestic violence. Landlord/tenant counseling was provided to over 2,800 persons.

The administration, management, and planning program utilized insures efficient operation of the CDBG program in accordance with Federal regulations, our standard operation procedures, and sound management practices. Substantial changes have been made in the internal timekeeping and cost allocation systems, and improvements in procedures for monitoring subgrantees. We have also begun to develop a computer based CDBG management and reporting system.

In sum, Detroit has made and is continuing to make substantial progress toward achieving its community development objectives. We believe that the CDBG program is working well, and should be continued at a level of \$3.4 billion.

Another program we wish to see continued is the UDAG program. The Administration continues to support the elimination

of the UDAG program. The Administration's budget proposes to rescind the remaining fiscal year 1987 funds and proposed to terminate the program in fiscal year 1988. Detroit supports reauthorization of UDAG at a level of \$440 million.

The Secretary of Housing and Urban Development has noted that UDAG has been successful in the generation of jobs and increasing the tax base of blighted urban areas. Consistent with the Secretary's findings, Detroit has successfully utilized UDAG's to stimulate the investment of private dollars into various local projects. UDAG has also brought about an increase in the public/private partnership ratio in Detroit.

According to January, 1987 records maintained by the City's Community and Economic Development Department, about 32 approved UDAG projects totaling \$166,773,753 generated \$2,328,546,268 in private investments in the City. Those who argue that UDAG warrants termination because it is a pork barrel give away program to the detriment of the overall national economy, have overlooked the reality that the provision of local benefits, contribute to the national economy as a whole.

Detroit has used UDAG as a way to leverage private dollars into the City. UDAG has assisted successful projects that but for the UDAG could not have been undertaken.

UDAG has helped to diversify the City's economic base in areas such as manufacturing, industrial development, tourism and

housing. UDAG projects in the City have promise. The epitome of that promise has been demonstrated in Detroit by those businesses that got assistance, utilized that assistance to expand and who are now no longer reliable on the Federal government for support. For example, the Gilreath Manufacturing project consisted of the acquisition of machinery and equipment for a certified minority owned business. The purchase of new equipment and machinery has allowed the developer to become more competitive. This project created 75 new permanent jobs for minorities and low/moderate income people.

Detroit has also used UDAG's to maintain those industries that have remained in the City. The Central Industrial Park Project was implemented to retain and modernize a large portion of the City's existing manufacturing base. This project provides the incentive required to attract and retain high-employment growth manufacturing firms. The first phase of the project is the construction of a General Motors Assembly Plant. That project is expected to produce 6,150 permanent jobs, of which 4,080 may go to low and moderate income persons; 5,700 temporary and construction jobs, of which 650 will go to low and moderate income persons; \$19,250,000 in property tax revenues and \$2,767,500 in City income tax revenues from employees. The project is expected to generate benefits to Detroit, such as a substantial increase in retail and other business activities in

the area and additional business for support industries such as suppliers.

The Chrysler project involves the complete modernization of the East Jefferson Avenue Assembly Plant. The modernization will include a new body shop, paint shop and assembly facility. We estimate that the modernization of this facility will allow for retention of over 4,000 employees, of which 69 percent are Detroit residents. Moreover, a \$15 million UDAG will leverage private investment of \$1 billion.

Tourism is an important aspect of Detroit's economic diversification. The Cobo Hall Convention Center expansion project promises to make Detroit more attractive for major conventions and conferences. The availability of hotel facilities is a key component to an expanded convention market. The Millander Center and Hotel, Pontchartrain Hotel, Book Cadillac Hotel and Hotel Crossroads are examples of how UDAGs have been useful tools in Detroit towards urban development.

The Book Cadillac Hotel project involves the renovation of 192,000 square feet of office space, and approximately 490 hotel rooms with 11,000 square feet of retail space. Upon completion, the new Book Cadillac Hotel will produce approximately 650 new jobs in Detroit. The project will restore a sixty-six year old landmark building, retain thirty jobs, and will greatly enhance the City's investment in the Central Business District.

Residential areas have been revitalized through UDAG projects such as Virginia Park Shopping Center and 7 Mile/Livernois Shopping Center. The Virginia Park Shopping Center is expected to create 250 new permanent jobs.

The Seven Mile/Livernois Neighborhood Shopping Center project is a major private initiative to rebuild and expand one of the strongest of the remaining neighborhood retail areas in Detroit. This project is expected to both upgrade the level and quality of retail and commercial services available to the predominantly minority residential community in this area and to provide substantial new employment opportunities to low and moderate income residents within Detroit. Total projected new employment to be created by the project is expected to exceed 125 persons.

These are just a few examples, of how important UDAG's are to Detroit. As you can see, the Federal dollars invested have been put to good use in Detroit.

The City of Detroit looks forward to working with you, Mr. Chairman, and Members of the Subcommittee in passing legislation that will continue these vital housing and community development programs. Thank you for the opportunity to submit our views for the record.

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Congress of the United States
House of Representatives
Washington, DC 20515

MELVIN PRICE
21ST JUDICIAL DISTRICT

March 9, 1987

CHAIRMAN EMERITUS,
COMMITTEE ON ARMED SERVICES

SUBCOMMITTEE:
RESEARCH AND DEVELOPMENT,
CHAIRMAN

SEAFORER AND STRATEGIC
AND CRITICAL MATERIALS

Hon. Henry B. Gonzalez, Chairman
Subcommittee on Housing and Community Development
2129 Rayburn House Office Building

Dear Mr. Chairman:

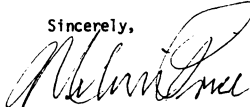
Please find enclosed a copy of the Honorable Ruth Keeton's statement before the Subcommittee on Housing and Community Development.

Mrs. Keeton refers to a situation affecting two counties in my congressional district on page 5 of her statement. St. Clair and Madison counties are in jeopardy of losing entitlement status because central cities, which are part of these urban counties, will no longer be allowed to defer entitlement status. A special provision of the Housing and Urban Renewal Act of 1983 allowed these newly designated central cities to defer entitlement status for 3 years ending in 1987. I believe that there may be only seven counties in the United States that are adversely affected by the central city designation.

It is my understanding that currently there are no provisions in H.R. 4 that would address this problem. Officials in central cities have indicated that if given the opportunity, they would again defer entitlement and join in the county. It is my understanding that officials in the central cities of other counties affected would also defer entitlement if given the opportunity. Certainly officials of the counties affected would prefer a permanent solution to this problem, and any efforts to resolve this matter would be appreciated.

Kindest regards.

Sincerely,



Melvin Price
Member of Congress

MP/je

GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE. I AM RUTH KEETON, MEMBER OF THE HOWARD COUNTY MARYLAND COUNCIL, AND CHAIR OF THE HOUSING SUBCOMMITTEE FOR THE NATIONAL ASSOCIATION OF COUNTIES.

AT THE OUTSET, I WANT TO APPLAUD YOU, MR. CHAIRMAN, FOR THE SPEED AT WHICH YOU ARE UNDERTAKING WORK ON AN OMNIBUS HOUSING BILL. COUNTY OFFICIALS WERE ALARMED LAST YEAR THAT CONGRESS FAILED TO PASS HOUSING AND COMMUNITY DEVELOPMENT REAUTHORIZATION LEGISLATION. THE ESCALATING GROWTH IN HOMELESSNESS IN URBAN AND RURAL COUNTIES IS REFLECTIVE OF A HOUSING CRISIS AND NEED FOR FEDERAL LEGISLATION WHICH ADDRESSES COMMUNITY REVITALIZATION THROUGHOUT THE NATION.

WHILE ENCOURAGED BY MOVEMENT IN CONGRESS TO ADDRESS HOUSING AND COMMUNITY DEVELOPMENT LEGISLATION, COUNTY OFFICIALS OPPOSE THE ADMINISTRATION'S FISCAL 1988 BUDGET PROPOSALS FOR THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) AND THE FARMERS HOME ADMINISTRATION (FmHA). WE VIEW THE PRESIDENT'S BUDGET AS AN ATTEMPT TO DISMANTLE FEDERAL TOOLS WITH WHICH COUNTY OFFICIALS RESPOND TO URGENT NEEDS OF OUR POOREST CITIZENS.

COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG) IS THE CORNERSTONE DEVELOPMENT TOOL USED BY COUNTY OFFICIALS FOR HOUSING REHABILITATION, PUBLIC FACILITIES CONSTRUCTION AND JOBS CREATION. HOWARD COUNTY USES ALL CDBG FUNDS IT RECEIVES THROUGH THE SMALL CITIES PROGRAM FOR HOUSING REHABILITATION FOR LOW INCOME

FAMILIES.

THE PRESIDENT PROPOSES A 14 PERCENT REDUCTION IN CDBG THROUGH RESCISSION OF \$375 MILLION OF THE \$3 BILLION APPROPRIATED FOR THIS PROGRAM IN FISCAL 1987. THE ADMINISTRATION ALSO PROPOSES THAT CDBG BE FUNDED AT THE REDUCED LEVEL OF \$2.625 BILLION FOR FISCAL 1988. NACo FIRMLY OPPOSES THESE PROPOSED CUTS. WE FEEL THAT THE \$3.4 BILLION FOR CDBG IN THE OMNIBUS HOUSING BILL INTRODUCED BY REPRESENTATIVE HENRY B. GONZALEZ, H.R. 4, IS MORE REFLECTIVE OF THE NEED AND BEGINS TO RESTORE CDBG TO ITS HISTORIC FUNDING LEVEL.

IN ADDITION TO FUNDING, NACo OPPOSES LEGISLATIVE PROPOSALS BEING CONSIDERED BY THE ADMINISTRATION TO TARGET CDBG FUNDS ON THE BASIS OF AVERAGE PER CAPITA GRANT. UNDER THIS SCHEME, AN URBAN COUNTY WOULD LOSE ITS ENTITLEMENT STATUS IF ITS CDBG GRANT IS LESS THAN HALF THE AVERAGE GRANT PER CAPITA. ROUGHLY HALF OF THE URBAN COUNTIES WOULD NO LONGER RECEIVE CDBG ENTITLEMENT FUNDS.

NACo OPPOSES THIS APPROACH FOR SEVERAL REASONS. WHILE IT WOULD BE EASY FOR HUD TO ELIMINATE ENTITLEMENT COMMUNITIES, A PER CAPITA APPROACH IN NO WAY MEASURES THE NEED FOR CDBG IN AFFECTED URBAN COUNTIES. FOR EXAMPLE, COOK COUNTY, ILLINOIS WOULD LOSE ENTITLEMENT STATUS, EVEN THOUGH IT HAS, IN ABSOLUTE NUMBERS, MORE LOW AND MODERATE INCOME CITIZENS THAN MANY OTHER ENTITLEMENT COMMUNITIES. MORE IMPORTANTLY, A PER CAPITA FORMULA OVERLOOKS

THE EXISTENCE OF POCKETS OF POVERTY IN URBAN COUNTIES AND THE TENACIOUS EFFORT OF COUNTY OFFICIALS TO DIRECT FUNDS TO THEIR CITIZENS WITH THE GREATEST NEED FOR COMMUNITY REVITALISATION. HUD REPORTS DOCUMENTS THAT ROUGHLY 90 PERCENT OR MORE OF CDBG ENTITLEMENT FUNDS BENEFIT LOW AND MODERATE INCOME PEOPLE.

BALTIMORE COUNTY, MARYLAND IS A NEIGHBORING COUNTY TO MINE WHICH WOULD LOSE ITS ENTITLEMENT STATUS UNDER A PER CAPITA FORMULA. IN THAT COUNTY, CDBG HAS BEEN USED TO REHABILITATE RENTAL AND OWNER-OCCUPIED LOW AND MODERATE INCOME HOUSING, TO CONSTRUCT CENTERS FOR THE HANDICAPPED AND SENIOR CITIZENS, AND TO PROVIDE GRANTS TO NONPROFIT ORGANIZATIONS TO WORK WITH BATTERED SPOUSES AND PROVIDE SHELTERS FOR THE HOMELESS. BALTIMORE COUNTY HAS USED CDBG TO MAKE PUBLIC WORKS IMPROVEMENTS IN AN ISOLATED TARGET AREA WITH A PARTICULARLY HIGH CONCENTRATION OF LOW AND MODERATE INCOME RESIDENTS. WATERS AND SEWERS WERE PROVIDED FOR THIS AREA WHERE NONE PREVIOUSLY EXISTED ALONG WITH ROAD IMPROVEMENTS. COUNTY RESOURCES, ALONE, SIMPLY ARE NOT SUFFICIENT TO RESPOND TO THESE VERY BASIC COMMUNITY DEVELOPMENT NEEDS.

WE UNDERSTAND THAT THE ADMINISTRATION MAY SEEK LEGISLATIVE CHANGE TO PERMIT NEW CONSTRUCTION AS AN ELIGIBLE CDBG ACTIVITY. THE NATION'S COUNTY OFFICIALS OPPOSE ANY NEW CDBG ELIGIBLE ACTIVITIES. THE ONLY INSTANCE IN WHICH WE MIGHT DIFFER FROM THIS POSITION WOULD BE IF NEW AND SUFFICIENT MONEY WAS APPROPRIATED IN AN AMOUNT COMMENSURATE WITH A NEW ACTIVITY. NEW CONSTRUCTION WOULD DIVERT FUNDS FROM CURRENT ACTIVITIES AT A TIME WHEN THE

ADMINISTRATION PROPOSES REDUCTIONS IN CDBG FUNDS. FURTHERMORE, MAKING NEW CONSTRUCTION AN ELIGIBLE CDBG ACTIVITY CANNOT SUBSTITUTE FOR HOUSING PRODUCTION MONEY THAT THE ADMINISTRATION SEEKS TO SHIFT OR RESCIND FROM PUBLIC HOUSING, THE FARMERS HOME ADMINISTRATION, SECTION 8, HOUSING DEVELOPMENT GRANTS AND RENTAL REHABILITATION.

WE FIND UNACCEPTABLE THE ADMINISTRATION'S RELIANCE ON VOUCHERS TO HOUSE THE NATION'S POOR. COUNTY OFFICIALS DISAPPROVE THE PRESIDENT'S EFFORT TO BLOCK THE CONSTRUCTION OF PUBLIC HOUSING AND TO REDUCE FUNDS FOR PUBLIC HOUSING OPERATING SUBSIDIES AND MODERNIZATION. FmHA HOUSING AND DEVELOPMENT PROGRAMS MUST BE MAINTAINED TO RESPOND TO THE UNIQUE CONDITIONS AND CRITICAL SHORTAGE OF HOUSING IN RURAL COUNTIES.

MR. CHAIRMAN, WHEN THIS COMMITTEE MARKS UP AN OMNIBUS HOUSING BILL, HACO URGES THAT IT CONTAIN A THREE YEAR REAUTHORIZATION OF CDBG AND OTHER HOUSING AND DEVELOPMENT PROGRAMS. A MULTI-YEAR REAUTHORIZATION WOULD GIVE ADDED ASSURANCE OF THE PROGRAMS' CONTINUING EXISTENCE. THIS IS PARTICULARLY CRITICAL FOR URBAN COUNTIES WHICH, IN ORDER TO QUALIFY FOR CDBG ENTITLEMENT FUNDS, MUST SECURE THREE YEAR COOPERATION AGREEMENTS WITH LOCAL GOVERNMENTS WITHIN THEIR JURISDICTIONS. THE ABILITY OF COUNTIES TO SECURE THREE YEAR AGREEMENTS INCREASES TO THE EXTENT THAT LOCAL GOVERNMENTS PERCEIVE THAT CDBG WILL EXIST THROUGHOUT THE DURATION OF THE COOPERATION PERIOD.

NACo IS CONCERNED ABOUT URBAN COUNTIES WHICH ARE THREATENED WITH LOSS OF THEIR ENTITLEMENT STATUS, BECAUSE CENTRAL CITIES WHICH NOW ARE PART OF THESE URBAN COUNTIES CAN NO LONGER ELECT TO DEFER THEIR ENTITLEMENT STATUS. IN 1983, HUD DETERMINED THAT SOME CITIES HAD BECOME CENTRAL CITIES ON THE BASIS OF 1980 CENSUS DATA. SAN JOAQUIN AND SONOMA COUNTIES IN CALIFORNIA, ST. CLAIR AND MADISON COUNTIES IN ILLINOIS, AND HUDSON COUNTY, NEW JERSEY WERE IN JEOPARDY OF LOSING THEIR ENTITLEMENT STATUS UNLESS PERMITTED TO INCLUDE NEWLY DESIGNATED CENTRAL CITIES IN ORDER TO MEET THE 200,000 POPULATION THRESHOLD. THESE COUNTIES WERE ABLE TO CONTINUE THEIR ENTITLEMENT STATUS, BECAUSE OF A SPECIAL PROVISION IN THE HOUSING AND URBAN-RURAL RECOVERY ACT OF 1983. THAT PROVISION ALLOWED NEWLY DESIGNATED CENTRAL CITIES TO DEFER THEIR ENTITLEMENT STATUS FOR THREE YEARS, 1984, 1985, AND 1986, SO THAT THEY COULD REMAIN WITH THE URBAN COUNTY.

THESE COUNTIES NOW FACE A SIMILAR SITUATION OF NOT HAVING THE REQUIRED 200,000 MINIMUM UNLESS PERMITTED TO COUNT THE POPULATION OF THEIR CENTRAL CITIES. EVEN IF THE COUNTY'S POPULATION EXCEEDS 200,000, SOME CENTRAL CITIES HAVE INDICATED THAT THEY WOULD LIKE TO CONTINUE TO PARTICIPATE UNDER THE URBAN COUNTY CDBG PROGRAM. NACo WILL WORK WITH THIS COMMITTEE TO MAKE PERMANENT, INSTEAD OF TIME-BOUND, THE PROVISION PERMITTING A CENTRAL CITY TO DEFER ITS ENTITLEMENT STATUS AS LONG AS IT CONTINUES TO HAVE ITS POPULATION INCLUDED IN THE URBAN COUNTY.

THERE IS A FINAL ISSUE I WOULD LIKE TO ADDRESS WITH RESPECT TO THE CDBG PROGRAM. URBAN COUNTIES ARE FACED WITH MEETING A THRESHOLD POPULATION OF 200,000 WHICH IS LARGELY DEPENDENT ON THE COOPERATION OF A NUMBER OF LOCAL UNITS OF GOVERNMENT. THE THREE YEAR OPT-IN PERIOD IS HELPFUL. HOWEVER, COUNTIES ARE STILL FACED WITH THE POLITICAL PROBLEM OF SOLICITING PARTICIPATION FROM CITIES, TOWNS, AND TOWNSHIPS WHILE AT THE SAME TIME EXPECTED TO DEVELOP A TARGETED PROGRAM WHICH MAY SERVE ONLY A PORTION OF THE COUNTY. COUNTIES HAVE DEALT SUCCESSFULLY WITH THIS DILEMMA BY AND LARGE, BUT COULD USE SOME RELIEF FROM CONGRESS.

WE FEEL THAT THE QUALIFICATION PROCESS SHOULD BE SEPARATED FROM THE FUNDING PROCESS. UNDER THESE CONDITIONS, COUNTIES WOULD AUTOMATICALLY QUALIFY FOR CDBG, IF THEY HAVE A POPULATION OF 200,000 OUTSIDE ANY METROPOLITAN CITY. FUNDING LEVELS WOULD BE DETERMINED SEPARATELY BASED ON THE NUMBER OF COOPERATING JURISDICTIONS AND THE POPULATION OF THE UNINCORPORATED AREA.

MR. CHAIRMAN, WE SUPPORT CHANGES IN THE URBAN DEVELOPMENT ACTION GRANTS SELECTION CRITERIA AS CONTAINED IN S.2507, AND HOPE THAT THOSE PROVISIONS WILL BE PART OF THE OMNIBUS HOUSING BILL. WE ALSO SUPPORT THE PROVISIONS TO PROVIDE SHELTER FOR THE HOMELESS AND THE EXPANSION OF THESE PROVISIONS IN H.R. 558.

NACo LOOKS FORWARD TO WORKING WITH THIS SUBCOMMITTEE IN ADDRESSING A RANGE OF ISSUES WHICH WILL ACHIEVE VICTORY IN

COMBATING THE HOUSING CRISIS. WE WILL WORK TO ENSURE THAT THIS NATION TRULY RECOMMITTS ITSELF TO THE GOAL OF PROVIDING DECENT, SAFE AND AFFORDABLE HOUSING FOR ALL CITIZENS.



National Conference of State Legislatures

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President Irving J. Stolberg
Speaker
House of Representatives
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Executive Director
Earl S. Mackey

STATEMENT OF REPRESENTATIVE

WOODS BOWMAN

ON BEHALF OF THE

NATIONAL CONFERENCE OF STATE LEGISLATURES

FOR THE

U.S. HOUSE SUBCOMMITTEE ON

HOUSING AND COMMUNITY DEVELOPMENT

Mr. Chairman, on behalf of the National Conference of State Legislatures and as chairman of NCSL's Committee on Commerce, Labor and Regulation, thank you for this opportunity to submit a statement for the record in support of H.R. 4 and in support of a renewed and vigorous federal housing program.

The goal of "a decent home and suitable living environment for every American family," as expressed in the Housing Act of 1949, has yet to be met. The President's Commission on Housing estimated that in 1982 7.5 million low-income households were living in substandard housing or paying more than 25 percent of their income for shelter. The National Housing Conference estimates that there are almost two million housing units without adequate plumbing and over 500,000 units without adequate heat. Nearly three million households are severely overcrowded. The Conference further estimates that as many as 2.5 million Americans are homeless.

The National Conference of State Legislatures therefore recommends a coordinated effort by federal, state, and local governments and by community and non-profit groups to achieve the goal of decent housing for all Americans. These efforts should concentrate on rehabilitation and construction of low-income housing and on subsidies to make existing housing affordable for low and middle income families. NCSL therefore supports continued funding for HUD and FHWA housing programs at levels at least equivalent to FY 1987 budget authority adjusted for inflation.

NCSL also believes that federal, state, and local governments should cooperate to encourage community-based development organizations, low-income housing trust funds, and other innovative measures to encourage new construction and rehabilitation of low and moderate income rental housing. To this end, we urge you to remove the caps on the use of tax-exempt bonds for housing development

and to strengthen and establish on a permanent basis the Federal Home Mortgage Disclosure Act.

NCSL also believes it is essential to advance the nation's goal of providing greater access to affordable housing by strengthening federal fair housing laws. Effective civil rights enforcement would complement a renewed low-income housing program.

Finally, NCSL urges immediate action to provide emergency shelter and assistance to the homeless. With so many American men, women, and children living in desperate circumstances, Congress must act and the President must sign emergency legislation. In this regard, the House's action on H.R. 558 launches a significant initiative to temporarily remedy the plight of the homeless. The homeless population is growing and increasingly includes whole families and children - poor people not just drifters and mentally-ill people.

We would also urge you to hold further hearings and explore new ideas for addressing our long-term housing problem. We are witnessing a decline in home ownership. Low and moderate income Americans must allocate an alarmingly high percentage of their income to purchase or rent minimally adequate housing. In some jurisdictions, it approximates 50% of annual income for many families.

NCSL has established a Housing Task Force to study this issue, to hold hearings across the country, and to develop new ideas for state and federal housing legislation. We look forward to sharing the results of our Housing Task Force study when it is complete, and we would urge you to give the housing crisis the same sustained attention and high priority.

State legislatures, governors, mayors, and county executives have responded to this crisis with new ideas. Over 119 new state housing programs have been

adopted since 1980. But, there are limits to the fiscal capacity of states, cities, and counties to address this problem. A new federal housing policy is needed to encourage and finance state, local, and nonprofit housing initiatives. NCSL looks forward to working with the Congress and this committee to develop such a new federal housing policy.

Statement of C. Earl Corkett, President of the Mortgage Insurance Companies of America for the Subcommittee on Housing and Community Development of the House Banking Committee on Housing Legislation Affecting FHA Programs and other Housing Policy Issues.

Mr. Chairman and Members of the Subcommittee:

MICA* is pleased the Subcommittee will include the following comments in the hearing record along with the statements of witnesses that testified on March 12, 1987. A primary purpose of this association is to provide information that will be of value in the formation of sound objective public policy. As always, we welcome the opportunity to have a MICA witness given an opportunity to present an oral statement and respond directly to majority and minority members of the Subcommittee.

Today there is a need to obtain a balanced picture of the role of the government in the mortgage insurance business. As monoline firms that cannot by state law be in any insurance line other than guaranteeing 1-4 family residential loans, MICA members are very concerned that the partnership our industry has with FHA operates to actually expand homeownership. Improvements in expanding homeownership are possible and private insurers are able and willing to serve the market more fully.

*MICA consists of the thirteen domestic private mortgage insurance companies which represent the active firms that help loan originators and investors make funds available to homebuyers by protecting these institutions from a major portion of the risk of default. The current MICA officers are President C. Earl Corkett of PMI, San Francisco; Vice President William Lacy of MGIC, Milwaukee, WI; Treasurer J. Edward Carlton of Integon Mortgage Guaranty Insurance Co., Winston Salem, NC; and Secretary, Fred Reichelt of Verex Assurance, Inc., Madison, WI. MICA also has private mortgage insurance companies members in Canada and Australia.

Because FHA utilizes government capital and credit - a scarce resource today due to federal budgeting constraints and a resource that has very real costs to the taxpayer - it is essential Congress obtain evidence that shows how FHA costs and benefits are distributed. It would not be advisable to adopt legislative changes affecting the management of the FHA programs until the following three questions have been addressed.

1. To what extent does the FHA Section 203(b) program overlap the types of borrowers served by private insurers according to such variables as borrower income, property value and loan amount? What benefits could result from a reduction of this program overlap?

(COMMENT: The fact of the overlap is indisputable based on recent FHA and MICA studies. The obvious benefit from a reduction of the overlap would be a concentration of FHA's reserve on the lower income and lower priced markets. Currently over a third of FHA loans go to borrowers with incomes above \$40,000 and who have conventional financing options. A small percentage of FHA loans go to lower income borrowers.)

2. What are the true costs of operating the FHA's 203(b) program? What are the costs and revenues and how are they accounted for? What relationship do premiums bear to the true economic risk of mortgage insurance and how does the actuarial soundness of the FHA program compare to the standards private firms must maintain?

(COMMENT: If the government is going to operate an insurance business in competition with private insurers, it ought to adhere to commercial standards as to premiums, and costs and reserves so as to identify and minimize both direct and indirect subsidies. The FHA primary role is to serve those who might not otherwise qualify for mortgages in the conventional market and not to provide subsidies to higher income borrowers. Under pricing of risk to borrowers with conventional options leads to overallocation of government resources away from the underserved market.)

3. What is the competitive impact of FHA on the private sector? What are the inducements to borrowers and inducements to lenders that comprise FHA competitive advantages and how do these inducements relate to higher levels of government risk from insurance claims and losses?

(COMMENT: The increasingly competitive impact of the FHA in some markets has acted to stifle the growth of the private mortgage insurance industry. We do not believe that this is the intention of the Congress; consequently, any FHA changes should be weighed carefully so not to place disadvantages upon private mortgage insurers.)

MICA's comments are not intended to be an attack on the FHA. MICA recognizes FHA's past contribution and has testified in favor of the agency's future role. We do however, reject the characterization that a redirection of the FHA to the underserved market simply is a part of the current Administration's attack on

housing. This failure to adequately examine FHA does an injustice to the underserved homebuyers and to private industry such as ours, that advocates FHA redirection based upon (1) actual business experience competing with the FHA and (2) a pledge to expand our role in serving American homeowners. We believe there would be sizeable public benefits if FHA were redirected to the underserved market and hope Congress will demand facts not just opinions in determining the future government role in housing.

Mortgage Insurance and Housing Legislation

Since our industry's inception its goals have been to increase both the availability and affordability of homeownership; much the same goals as those of FHA. The insured conventional loan has grown to a position of dominance in serving moderate income homebuyers.

From 1972 through 1985 the private insurance industry insured \$342 billion of new loans while the FHA did about \$187 billion. In the more recent five years 1981 through 1985 private mortgage insurance companies increased that volume and insured over twice the total number of loans insured by the unsubsidized FHA program. During that period a large number of the firms in the mortgage lending business began to originate more conventional loans than FHA loans. Moreover, the conventional insured loan demonstrated it serves the bulk of those same homebuyers who in the past had to rely upon the government programs.

Members of MICA have been proud of their record in contributing to our national housing goals by using their capital and reserves to

support those mortgage lenders operating in housing markets which have undergone serious economic stress. Despite our recent underwriting losses, our industry reserves are higher than they were four years ago, our ratings have been essentially retained and new capital has entered the industry.

We have supported housing, not only in good times by expanding homeownership and by fulfilling the aggressive marketing needs of homebuilders, realtors and mortgage lenders, but also in bad times by protecting the reserves and assets of financial institutions and investors holding home mortgage debt. We believe that the way our industry has weathered the storm of the early 1980s lends credence to its staying power. The industry stepped up to the table to pay the price for aggressive risk-taking and is handling near catastrophic claims in economically depressed energy and agricultural states according to the terms of its policies.

Since 1983, mortgage insurers have paid out almost \$3 billion in claims to FSLIC-insured thrift institutions, the Federal secondary market agencies, FNMA and FHLMC, state and local housing finance agencies and other mortgage investors. These funds provide a vital safety net and encourage future risk-taking by these lenders. In fact, since we take the first dollar of loss when a loan goes bad, mortgage insurers may be regarded as a primary reserve protecting the capital of these institutions and their ability to continue to operate safely. Despite this industry's massive underwriting losses and claim payments during the last several years the industry has remained profitable with a positive net income.

In 1986, for the first time since 1972, the Section 203(b) FHA one-to-four family insurance programs surpassed the volume of loans insured by the firms in the private sector. Some have used this as evidence to question the future need of the FHA and the social benefits this program provides homebuyers. This 1986 performance volume, however, should raise questions about FHA from members of the Subcommittee. 1986 was a year of increased affordability of homes, it was a period when funds to finance a homepurchase were available at reasonable rates without government assistance. Contrast these conditions to 1983 when mortgage rates were high and affordability low yet the private sector provided, by a wide margin, the bulk of insurance for high ratio loans that helped people by homes. Since the statistics show a large percentage of FHA-insured loans go to borrowers with higher incomes, it brings into question who or what income group is to be served by the government. Are the FHA benefits being properly allocated to a fair proportion of the lower income borrowers; and how does the tremendous overlap of market served by both private insurers and FHA reflect inefficient duplication?

Existing housing policy is built upon a partnership between the private and public sectors, and we believe in such a partnership for the 1990's. The National Housing Act of 1949 sets forth that policy in a most appropriate manner:

"The policy to be followed in obtaining the national housing objective hereby established shall be (1) private enterprise shall be encouraged to serve as large a part of the total need as it can; (2) Government assistance shall be utilized where feasible to enable private enterprise to serve more of the total need."

As this partnership applies to mortgage insurance, there must be an appropriate balance between the private and public role. Thus, MICA does not advocate abolishing the FHA 203(b) program. We believe lenders need a strong FHA. We support changes that will make the FHA more responsive in the market and more dynamic in fulfilling its mission. We also support changes that will encourage private insurers to serve the market to their full potential in a way that is commercially feasible and fiscally efficient. In the past two years the competitive balance has moved substantially in favor of the FHA and MICA members have become appropriately concerned about the nature of the playing field on which they must compete with the FHA. The capabilities this government entity has in substituting Federal backing for required capital funds, its direct access to capital markets through GNMA with the backing of the full faith and credit of the U.S Government, and its exemptions from Federal, state and local taxation are more important than ever today.

Since government cannot realistically do everything everybody may want it to do, it is appropriate to elicit the maximum contribution from the private sector in attaining policy goals. Public policy must seek a government role that brings the greatest efficiencies to the markets. Because government capital and credit capacity is a scarce resource, it must be used today more discriminately than was the case 15 or 20 years ago.

Many have recognized that reform is needed in the way federal credit is allocated. The FHA is the major user of federal credit. At the present time the government role in providing mortgage insurance through the FHA is out of balance with efforts of competing private firms. The Administration in its last several budget messages has recognized this and has proposed the FHA Section 203(b) single-family mortgage insurance program be retargeted to better provide mortgage credit to households who are unserved or underserved by the private mortgage insurance industry. The Administration has received recommendations from a Presidential Task Force and a task force created by the Secretary of the Department of Housing and Urban Development. Both suggested changes that will increase the utility of the FHA in expanding homeownership and helping to stabilize housing markets. What is wrong with a public policy that directs the government role to the underserved market?

The opposition to the current Administration proposals to modify programs of the FHA generally comes from those who believe that FHA should be available to all who seek it regardless of income or other factors. They assert that section 203(b) is not a subsidy program. If the Subcommittee were to obtain information on FHA performance it would be apparent that its insurance program reflects sizeable subsidy or government assistance that is not available to competing private firms. Government liabilities are not without economic cost.

Meaningful data on the FHA has not been made available to the Subcommittee. We therefore, urge that most new legislative changes for the FHA be postponed. It would be inappropriate, without

examining the evidence, to prohibit permanently administrative adjustments that could help to retarget the program. In some markets the financial incentives exist in the FHA program which have encouraged loan originators to move away from lower income borrowers. Congress should not oppose any change that may increase the proportionate utilization and benefit for those many families with little equity and incomes below the median in their market. Statistics confirm this and have provided a strong rationale for the Administration to seek redirection.

There is also substantial evidence that the FHA should at this time be building large reserves so that it can better carryout its responsibility in times of serious economic distress. Private mortgage insurers recently experienced claims in certain markets which were at levels three to five times normal; up to the level of the Great Depression. FHA has been more fortunate because in the early 1980's homeowners could not qualify for the prohibitively priced fixed rate FHA mortgage and the FHA generally missed the bad writing years. There is, however, no assurance that the agency will be fortuitous in the future. Congress would be well advised to evaluate what is the appropriate level of catastrophic reserve that the FHA should build up in good times so that it can function at optimum levels when it is most needed. It is probably time that many in Congress wish they had applied this thinking to an examination of the FSLIC several years ago.

A question has been raised regarding the effects of an increase in FHA premiums from 3.8 percent to 5.0 percent on potential homebuyers and housing demand. A MICA witness, testifying recently

before a Senate Committee, indicated that FHA contracts are priced below those of private vendors, and using the general pricing guideline of the private industry, a quotation for FHA 100 percent coverage, up to 95 percent, would range from 5.85 percent to 6.60 percent.* A level above that recommended in the President's budget proposals. Those testifying in opposition to any premium increase claimed, "Increased fees on the average FHA loan on a \$65,000 home will cost the average FHA homebuyer an additional \$2,200, thereby eliminating many would be homebuyers from qualifying for FHA loans."

It is important to put this potential premium increase into proper perspective. For the purchaser of an average \$65,000 home with a 30 year FHA loan at current interest rates, the increase is very small. Since the premium is capitalized into the loan and added to the monthly payment, the increase would change the borrower's payment by \$5.50 per month. Based upon typical underwriting practice the amount of annual income a homebuyer would need to qualify would only be up from \$20,900 to \$21,108 or \$208. If the cost for FHA or private insurance is compared with the cost of homeowner insurance or auto insurance the borrower's cost is low. The increase is proportional to the size of the mortgage and would appear to improve the FHA's actuarial soundness. The increase will have very minor impact on the typical FHA borrower.

*The witness used the following assumptions: 95 percent fixed rate loans with 100 percent coverage; a half life of 12 years; expense ratio of 20 percent; salvage value of 65 percent, risk to capital ratio to 20 to 1 (S&P's standard for AA rating); and a return to capital of 15 percent after that.

An actuarially sound FHA is more important than ever to this nation. Government accounting handles the agency's funds on a cash basis. Thus, premium dollars -- particularly with a front-end single premium gathered at the time of origination -- will grow rapidly in good years. Claims, particularly if they are catastrophic, will cluster in bad years, frequently at times when new premium volume is low. As a consequence, the budget will be hit by the FHA in the worst of times and when deficits are greatest. Because of this fact, it is important that loss-reserving procedures take into consideration the nature of catastrophic risk and that some type of reserving be considered.

There is little doubt that the level of risk in the American real estate and mortgage finance markets has increased. Absent generalized inflation, with deregulation and the free flow of funds cross markets and the securitization of mortgage money, catastrophic risk is an ever-present danger. The private mortgage insurance industry believes that compared with the 1970's, the level of normal risk has more than doubled. The prospects of catastrophic risk exposure which were linked only to general economic recession in the 1970's can occur for a host of regional structural events as well as national cyclical causes.

MICA is pleased to provide these comments and would be happy to set forth for the Subcommittee what additional facts we have available regarding what private insurers can do in helping many families obtain low downpayment loans without government assistance. It would be ill-advised to support an expanded FHA based upon calls for the use of a full faith and credit guaranty of

the U.S. Government that is priced well below its market value. An actuarial study of FHA and the potential in mortgage risk during the next few years is very much in order. To overuse government credit at below market prices for those who can qualify for mortgages in the conventional market is, in this higher risk environment, a sure recipe for future problems.

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March 13, 1987

Honorable Henry B. Gonzalez
House of Representatives
Washington, D.C. 20515

Dear Congressman Gonzalez:

As was outlined at the Subcommittee on Housing and Community Development Hearings held on March 12, 1987, the following are the specific recommendations of the Rental Housing Association for inclusion in the Housing and Community Development Act of 1987 (HR-4).

The recommendations all relate to Rental Rehabilitation Grants under Section 17 of the Housing Act of 1937 and the related use of housing assistance through certificates and vouchers under Section 8 of that Act. All of our recommendations have been included in the Housing Authorization Bill approved by Senate Committee on Banking, Housing, and Urban Affairs except that the Senate Bill proposed an authorization of \$220 million while we recommend \$250 million.

A. Rental Rehabilitation Program Funding Level and Funding of Rental Rehabilitation Technical Assistance.

The following statutory language is suggested.

"AUTHORIZATION -- There are authorized to be appropriated to carry out the provisions of the section not to exceed \$250,000,000 for each of Fiscal Years 1988 and 1989, of which \$1,500,000 shall be available each year for technical assistance including the collection, processing and dissemination of program information useful for local and national program management."

COMMENT

1. Funding Level. \$250 million is fully justified by the great need of lower income families now living in substandard units and by the growing capacity of local and State governments to use Rental Rehabilitation Grant funds effectively. The \$75 million funding level, currently in HR-4, is undesirable for this proven successful program.

The funds would rehabilitate 70,000 units. About 45,000 of these units would be occupied by families receiving Section 8 Existing certificates or vouchers. Approximately 20,000 additional lower income families would occupy rehabilitated apartments but need no rental assistance to make the units affordable.

2. Funding of Technical Assistance to Participating Governments. The flexibility given to local and State governments is an important asset of the Rental Rehabilitation Program. The program places great demands on local staff, and staff performance across the country varies tremendously. Some local organizations are excellent, but there are also horror stories from local investors of frustration, waste and unnecessary financial cost created by too many local agencies.

To carry out the Rental Rehabilitation Program, local staff must have expertise and confidence and be able to operate with flexibility in a dynamic and confusing real estate market. That is difficult for staff who often have been trained to fill out forms and obey regulations.

The Federal government has a responsibility to make the needed skills and knowledge available to local and State staff. Technical assistance can be a cost-effective investment and it is necessary for the Rental Rehabilitation Program to be fully successful.

The Administration recommended \$1 million for Rental Rehabilitation technical assistance in FY 1988 and in FY 1989. A level more fitting to the need is \$1.5 million annually.

Federal technical assistance should emphasize gathering information from the experience of program "customers" - tenants, investors and contractors. That information should then be used to convince and assist local staff to make their programs streamlined, simple, and responsive.

Streamlined programs mean lower subsidies. If property owners are scared off by paperwork, local rules and bureaucratic attitudes, greater subsidies will be needed to gain participation.

3. Clarification of Technical Assistance Authorization to Include Communication of Data. HUD has an extensive system for gathering immediate program operating and program benefit information tied into the electronic fund transfer disbursement process (the Rental Rehabilitation Cash and Management Information System, or C/MI).

The C/MI System is intended to be of direct help to local program management. HUD has begun technical assistance in setting up computerized local management systems which can interface with the national C/MI System. There is still much work to be done.

The recommended authorizing language would clarify that making best use of this excellent resource to help local and State management is permitted and encouraged as part of HUD technical assistance.

B. Rental Rehabilitation Program Limits on Amount of Subsidy Per Unit.

The Statute now limits rehabilitation subsidy to 50% of the eligible rehabilitation cost up to an average of \$5,000 per unit with adjustments possible for high cost areas. The Administration is recommending increasing that limit to \$7,500, but only for units of three or more bedrooms.

The following recommended language is based on the Administration wording.

"Section 17(c)(2)(e) of such Act is amended by deleting "\$5,000 per unit" and inserting immediately after "exceed" the following; "\$7,500 per unit for units with up to two bedrooms and \$8,500 per unit in the case of units with three or more bedrooms."

COMMENT.

The intent of this amendment is to increase flexibility of local administrators to make careful cost-benefit judgments without being unduly limited by rigid national rules. It is not the intention to increase average per unit subsidies to any significant degree. The continuing limitation that rehabilitation subsidies cannot generally exceed 50 percent of the cost of rehabilitation will remain as a very effective cap on project subsidies.

The Rental Rehabilitation Demonstration carried out by HUD prior to the national program, which had no rigid national limit similar to that of the present legislation, had an average of only \$3,500 per unit subsidy.

C. ~~More Flexible Use of Section 8 Certificates and Vouchers to Prevent Displacement of Lower Income Tenants Residing in Rental Rehabilitation Units Prior to Rehabilitation.~~

The following amendment is recommended.

Section 16 of the Housing Act of 1937 is amended by adding the following after the last sentence of paragraph 16(b):

"The limitation shall not apply to units made available under Section 8 Existing housing assistance contracts for the purpose of preventing displacement, or ameliorating the effects of displacement, including displacement caused by rents exceeding 30 percent of monthly adjusted family income, of lower income families from projects being rehabilitated with assistance from rehabilitation grants under Section 17 of this Act. The Secretary shall not otherwise unduly restrict the use of payments under Section 8 housing assistance contracts for this purpose."

We support the amendment in HR-4 which states:

The first sentence of Section 8(o)(3) of the United States Housing Act of 1937 is amended:

(1) by striking "or" before "(C)"; and (2) by inserting before the period at the end the following: "or (D) a family residing in a project being rehabilitated under Section 17 that is determined to be a lower income family at the time it initially receives assistance and whose rent after rehabilitation would exceed 30% of the monthly adjusted income of the family."

COMMENT

The purpose of these amendments are to make it clear to public housing agencies that any certificate or voucher available to them may be used to prevent displacement of lower income tenants living in projects assisted by Section 17 Rehabilitation Grants. The statutory directive is necessary to overcome various statutes and regulations which unduly restrict such use. These amendments make it clear that any available Section 8 Existing housing resources may be used to avoid displacement, including displacement caused by increases in rents.

Under current HUD interpretations and regulations there are several restrictions on the use vouchers and certificates that makes the application of these rental assistance tools unduly burdensome and unworkable. The proposed amendments are intended to correct the following situations:

- o current rules do not permit vouchers to be used for tenants with incomes between 50% 80% of median income who are forced to move from units rehabilitated under Section 17 because they can no longer afford the rent. This is of course the precise reason that rental assistance is usually needed in conjunction with the Rental Rehabilitation Program!
- o present rules do not allow general use of certificates and vouchers for persons in Rental Rehab units who are or would be displaced, however vouchers and certificates allocated as "RRP" certificates and vouchers may be targetted in this manner. The distinction between "regular" and "RRP" certificates and vouchers is blurry at best, particularly as communities are urged to use "RRP"

vouchers on an interim basis. Permitting any certificates or vouchers to be used under the same rule would give greater flexibility and induce more efficient local management.

- o A complicated administrative procedure is currently used to control the allocation of Section 8 resources to tenants with incomes between 50-80 percent of median who are, or would otherwise, be displaced by Rental Rehab activity. The amendment would remove the restriction and the associated administrative burden and assure that any lower income tenant needing assistance to avoid displacement could get it.

If you have any questions concerning our recommendations, please feel free to contact me.

Sincerely,

/s/

James A. Rapp
Executive Director

cc: Mr. Jerry McMurray
Staff Director,
House Subcommittee on Housing
and Community Development



SENIOR CITIZENS
HOUSING COMMITTEE

B'NAI B'RITH INTERNATIONAL

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March 16, 1987

The Honorable Henry B. Gonzales
Chairman, Subcommittee on Housing and
Community Development
House Committee on Banking, Finance and
Urban Affairs
2132 Rayburn Building
Independence and S. Capitol Streets, SW
Washington, D.C. 20515

RE: Comments in Response to H.R.4

Dear Mr. Chairman:

On behalf of the Senior Citizens Housing Committee of B'nai B'rith International, I would like to offer our comments with respect to your consideration of H.R.4. In lieu of oral testimony, we would appreciate your inclusion of these comments in the official record.

B'nai B'rith International, through its Senior Citizens Housing Committee, has for the past 15 years been involved in a cooperative partnership with the federal government in building subsidized housing for senior citizens through the various programs of the Department of Housing and Urban Development, under Section 202/236 and now 202/8. During this time, we have opened 20 senior citizens apartment buildings nationwide. We have three additional projects under construction, and are currently preparing to submit another five applications for Section 202 funding to the Department of Housing and Urban Development for consideration during fiscal year 1987.

By 1989, we will have constructed and be operating 23 apartment buildings, nationwide, with just over 3,000 apartments. While most of these units house only one individual, many are for couples. We will be serving approximately 3,500 older citizens, without regard to race, religion, national origin, or creed. Thirty-five hundred people. That sounds like a great achievement, and perhaps it is for a single, private organization. But, in terms of answering the needs of the senior citizens, it falls terribly short.

The "greying of America" is well documented. The population 65 and over grew by 20.6 percent between 1960 and 1970, and by 28 percent between 1970 and 1980. Today, according to government statistics, 27 million Americans are over 65. The implications of these projections for housing in this country, and for the federal housing policy in particular, are profound.

The demand for Section 202 housing units far exceeds the supply. This is documented by the national survey of Section 202 housing projects conducted in 1984 by the U.S. Senate Special Committee on Aging, and confirmed by our experience at B'nai B'rith International. A survey of the B'nai B'rith facilities reveals that each of our 20 projects is filled to capacity. The three projects still in the development stage are already accumulating sizable waiting lists even though construction is far from complete and no public announcement for applications has been made. Our Washington office receives letters and calls daily, from individuals all across the country, requesting information about our program, and asking where they can find available housing.

Yet these figures represent only a fraction of the actual number of persons who need the housing that these projects offer. Waiting lists only represent those persons who chose to apply, and does not include those who were discouraged by the prospect of a long wait and chose not to bother. Many times these are the people who may be most in need of affordable housing. Sometimes a waiting list becomes "frozen" and no new names are added. For example at our two housing facilities in Allentown, PA, the waiting list has been "frozen" for four years. They are just now beginning to accept new applications for apartments. Unfortunately, we can document similar situations in many other cities across the country.

With this in mind, we would like to offer the following specific points to be included in H.R.4.

1. As one of HUD's most successful programs, the Section 202 direct loan program for the elderly and handicapped should be authorized to fund an additional minimum of 12,000 housing units with appropriations of a minimum of \$750,000,000 (adjusted annually for inflation). Ten years ago, this program was being funded at levels of 30,000 units. Today, with the numbers of needy elderly growing larger each day, we must resist the trend to barely keep the program alive and take steps to insure that our future needs are met. The 1981 White House Conference on Aging called for a minimum of 20,000 units annually for this program. We agree with this recommendation.
2. Provide that eligibility for occupancy in low income housing, including the Section 202 direct loan program, be extended to families and single persons with incomes of up to 80 percent of the median income for the area.

The current limitation requiring that eligibility for admission to occupancy be limited to those with incomes of 50 percent of the median income for the area is far too restrictive, shuts out low income families and persons who cannot obtain decent housing without the expenditure of excessive percentages of their income-- often in excess of 50 percent-- creates over-concentrations of the very poor, and tends to result in the use of maximum subsidies per unit subsidized, rather than maximizing the number receiving assistance. Such an amendment would return eligibility to the income groups originally made eligible in the 1974 Housing Act.

- 3 -

Our experience at B'nai B'rith indicates that well over 85% of the residents in our buildings are in the very low income group, and would continue to be so, even if the limits were to be raised. However, we are currently faced with the task of rejecting many needy and deserving individuals whose incomes are only slightly above the very low income range.

In New York City, 50 percent of the area median income is \$10,350. Where does a widow with an annual income of \$11,000 apply to live?

3. Occupants of Section 202 and other housing projects where the Section 8 Housing Assistance Payments are used as subsidies are required to pay 30 percent of income for rent. Administratively, HUD has determined that if the 30 percent of the family's or person's income is more than the fair market rent for the unit to be occupied, that family or person is considered ineligible for occupancy. This penalizes an otherwise eligible family or person unfairly, simply because a given project has a relatively low rent structure.

Because conscientious owners and management have controlled costs and have not routinely sought rental increases, the income eligible applicant is penalized by not being admitted to the building. However, the same individual is able to gain admission to another Section 202 building with a higher rent structure, with an accompanying government subsidy which would not have been required in the original case.

Clearly, this "catch 22" situation is a disincentive to keep costs down. By maintaining a low market rent, management must limit prospective applicant to only those persons with the smallest annual income. This again creates an overconcentration of "poor" and tends to "stigmatize" a particular facility. From a deficit reduction view, it also maximizes the use of government subsidy dollars rather than provide quality housing for as many income eligible persons as possible.

H.R.4 should be amended to permit such families or persons to be assured admission if they are otherwise eligible under HUD guidelines.

4. Various efforts are being made to permit the prepayment of mortgages covering low income projects such as Section 202 projects for the elderly and handicapped where the market demand for housing suggests that higher rents and profits could be obtained should the mortgages be paid off immediately. This would result in the loss of already limited housing resources for the low income elderly or handicapped if such prepayments were permitted.

Accordingly, H.R.4 should include a provision that would allow a low-income project mortgage to be prepaid prior to the maturity date of the mortgage, without penalty, but with a provision that HUD's requirement assuring that the project would continue to serve the original purpose for which it was approved would still be in effect.

5. Having demonstrated its success in meeting the needs of the frail elderly and the handicapped, and with continuing unmet needs among many, many thousands, the Congregate Housing Services Program (CHSP) should be revitalized and eventually be authorized to serve an additional minimum of 20,000 frail elderly and handicapped families and persons annually, to be allocated between Section 202 and public housing projects as currently administered.

Recognizing that H.R.4 authorizes \$10,000,000 for FY 1988, we at B'nai B'rith feel that raising this authorization to \$30,000,000 would, in essence, double the size of the current program, allowing for approximately 61 new grantees and providing supportive services for approximately 4200 more individuals for a three-year period. This \$30,000,000 outlay would result in significant savings to the federal government if these supportive services were to be obtained under a more traditional institutional setting.

6. H.R.4 should be amended to provide that where mandatory meal programs are in effect in Section 202 projects, project owners must be permitted to evict any tenants who refuse to pay for the required meals after having been given reasonable notice and after the tenant has exhausted all appeals procedures to the Secretary of HUD as well as all available legal actions.

Since the inception of the Section 202 program, the federal government has depended upon the non-profit community to share in the task of providing the sense of commitment and challenge in making quality housing available to low-income senior citizens. For the non-profit organizations in general, and B'nai B'rith in particular, this partnership has been an exciting and eye-opening experience of government and private groups working hand-in-hand, to the benefit of thousands of American citizens. We believe that many tax dollars have been saved through this housing program, and that people who needed the help most have been helped.

Without the tireless support of your committee, the non-profit community could not continue in this great endeavor. The remarkable advances that this country has made in accomplishing our housing goals would not have come about if it were not for the significant participation of the federal government.

We consider it to be a privilege and a sacred task to be involved in this program of caring for senior citizens, and we hope to continue to build new projects in cooperation with HUD. Providing affordable housing for the elderly requires a long-term commitment of time and resources. We have that commitment. It is because of this commitment that we now express our views.

Mr. Chairman, we appreciate the opportunity to share these thoughts with you. There have been many criticisms of the Section 202 program and its forerunners in subsidized housing for the elderly, but on balance, we must focus on all of the good that has been in this partnership between government and non-profit organizations.

- 5 -

We look forward to being able to assist you in strengthening this program and for the opportunity to continue to provide quality housing for our needy seniors.

Sincerely,

Nathan I. Nagler
Chairman

NIN:hmm

RENTAL HOUSING ASSOCIATION

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EXECUTIVE DIRECTOR

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HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
HEARINGS ON THE HOUSING AND COMMUNITY
DEVELOPMENT ACT OF 1967

MARCH 12, 1987

STATEMENT OF
RENTAL HOUSING ASSOCIATION

INTRODUCTION

The Rental Housing Association (RHA) is a new organization representing the, mostly small scale, real estate investors who own and manage rental property. The vast majority of the membership participate in the Rental Rehab Program and the Section 8 certificate and voucher programs of the Department of Housing and Urban Development.

The Rental Rehab Program is itself relatively new, and the RHA welcomes the opportunity to share its member's experience with Rental Rehab and the many innovations it has introduced into government sponsored low-income housing.

The RHA believes that the Rental Rehab Program is sound; it is working well and should be continued without major change. The Rental Rehab Program deserves, and is receiving, bi-partisan support. Last year the Congress increased program funding to its highest level, \$200 million, despite an Administration recommendation to terminate. This year, even the Administration is returning to a modest level of support with a funding recommendation of \$75 million.

RENTAL REHAB PROGRAM PERFORMANCE

- **Production is excellent.** Over 70,000 units are under construction or completed in 12,000 projects. More than 50,000 additional units will be started in FY 1987.
- **Costs are low with good leverage.** Per unit subsidy is only \$3,200 with average rehabilitation costs of \$9,600 per unit. Two dollars of other funds, mostly private, are leveraged for each Rental Rehab dollar invested.
- **Benefit is high for lower income families.** 93 percent of the units are occupied by lower income families (compared to a program requirement of 70 percent) and 75 percent are very low income. Most of the lower income tenants (70 percent) have received certificates or vouchers. The remaining 30 percent can afford the rehabilitated unit with no Section 8 assistance.
- **The neediest are being helped.** 52 percent of the tenants are families headed by a single female.
- **Small buildings and small scale investors are included.** The average size Rental Rehab project is smaller than 6 units.

Rental Rehab uses a novel strategy. Shallow subsidies are targeted to rehabilitate modest rental units for market rate rental in lower income neighborhoods where they can be afforded by Section 8 certificate and voucher tenants as well as some unassisted households. The assisted tenants can, if they wish, move with their certificates and vouchers. That concept is radical for subsidized housing but, it works!

RENTAL REHAB FROM THE INVESTOR'S PERSPECTIVE

Our organization, RHA, represents one of the key actors in the Rental Rehab process, the investors who put their money at risk to rehabilitate rental property in lower income neighborhoods. How does the Rental Rehab Program look from the investor's perspective?

Although many of our members would prefer the old style of HUD programs like Section 8 Substantial and Moderate Rehab) which guarantee the investor a high income, we recognize that those older programs are very expensive compared with Rental Rehab. Because we believe that government support for low income housing is necessary and important, we recommend that cost-effective programs like Rental Rehab be emphasized that is the kind of program we need in these times of tight budgets.

Rental Rehab puts tough pressure on the investor. With a Section 8 Moderate Rehab project for example, if the unit becomes undesirable for the tenants, the subsidized families must stay or lose all assistance. The property still gets his income and profit. If the same thing happens with a Rental Rehab unit, the tenant will simply take the certificate or voucher and move to a different apartment.

Giving the tenant that freedom is good for the tenant. It helps to assure that the tenant and the public are getting full value for the taxpayer's money spent on rent subsidies. It does, however, force owners to make hard-nosed financial decisions and take real risks!

RHA members recognize that forcing owners to have their management disciplined by market forces and requiring developers to make tough judgments on feasibility in the free market help to achieve the good cost-benefit results the program is showing for the taxpayer. We will accept the hard demands Rental Rehab places on project investors because we believe that a sound, shallow subsidy program deserves Congressional support and is more in our long-term interest than more profitable, but high cost housing programs.

The thousands of property owners who are willing to undertake the risks and headaches of investing real money in Rental Rehab projects in lower income neighborhoods speak eloquently to the point that the concept does work for investors despite the tough role they have to play.

RECOMMENDATIONS FOR RENTAL REHAB

We have four recommendations relating to Rental Rehab for the housing authorization legislation you are now considering:

1. Rental Rehabilitation Funding. The \$200 million appropriated last year was just about right for a new program still being worked out in the communities. A modest increase to \$250 million would be appropriate for FY 1986. Many, many lower income tenants still live in substandard units crying for attention.

While \$250 million is a small amount of the annual housing budget, it could rehabilitate about 70,000 units. That would be a major part of the housing production to be achieved by all housing programs in FY 1988.

About 45,000 of those 70,000 units would be occupied by certificate or voucher holders, but, another 20,000 units would be lived in by additional lower income families without any further housing subsidy and who would otherwise be living in substandard housing.

2. Technical assistance to participating governments. The flexibility given to local and state government is an important asset of the Rental Rehabilitation Program. The program places great demands on local staff, and, staff performance across the country varies tremendously. Some local organizations are excellent but we hear many horror stories from local investors of frustration, waste, and unnecessary financial cost created by too many local agencies.

To carry out the Rental Rehab Program, local staff must have expertise and confidence and be able to operate with flexibility in a dynamic and confusing real estate market. That is difficult for staff who often have been trained to fill out forms and obey regulations!

The Federal government has a responsibility to make the needed skills and knowledge available to local and state staff. Technical assistance can be a cost effective investment and it is necessary for the Rental Rehab Program to be fully successful.

We are pleased that the Administration is recommending \$1 million for Rental Rehab technical assistance in FY 1988. We would recommend about \$1.5 million annually.

Federal technical assistance should emphasize gathering information from the experience of program "customers" - tenants, investors and contractors. That information can then be used to convince and assist local staff to make their programs streamlined, simple, and responsive.

Streamlined programs mean lower subsidies. If property owners are scared of by paperwork, local rules and bureaucratic attitudes, greater subsidies will be needed to gain participation.

3. Per unit subsidy limits. The Administration is making another forward looking proposal by recommending a small increase in the \$5,000 per unit limit on Rental Rehab subsidies. (They recommend a \$7,000 per unit limit for apartments of 3 or more bedrooms.)

Numeric national limits are inherently rigid and reduce the ability of local officials to make reasoned judgments suitable to their communities. \$5,000 per unit is, for example, a relatively large percent of development costs in some areas with low real estate values, but is a very small percent in other markets.

With no rigid limits in the Rental Rehab Demonstration carried out by HUD prior to implementing a national program, the average per unit cost was still a very low \$3,500. The requirement that Rental Rehab funds can only be used for 50 percent of the rehabilitation costs acts to limit the rehabilitation subsidy amount without any dollar per unit limit.

The Rental Rehab Program would continue to have low costs with \$5 per unit subsidy limit. However, we understand that the Congress prefers the cost control that statutory limits imply. If there must be limits, program performance would be aided by the greater flexibility of raising limits to \$7,500 per unit with \$8,500 per unit for apartments of three or more bedrooms.

4. Vouchers and Certificates with Rental Rehab. Coordination of rent subsidies from the Section 8 Existing Housing Program and rehabilitation subsidies from Rental Rehab is the essence of a cost-effective tenant assistance and rental unit rehabilitation program. This can be a difficult problem for HUD and local agencies.

On the one hand, it is not wise to hold certificates and vouchers away from needy families just so they are available when needed for Rental Rehab. On the other hand, no investor or city can undertake a rehabilitation project involving low income tenants without being absolutely assured that rental subsidies will be available at the exact moment needed to keep tenants from being displaced by higher rents after rehabilitation.

A minor statutory clarification could give local officials much better ability to manage efficiently without tying up certificates and vouchers unnecessarily.

We recommend that the Section 8 Existing Housing Program be amended to make it clear that any voucher or certificate can be targeted to a lower income tenant who would otherwise be displaced by Rental Rehab project, including displacement by increased rent after rehabilitation, and that local housing authorities have an affirmative priority to use certificates and vouchers to that end.

Under current HUD interpretations, most certificates and vouchers can only go to tenants who actually leave their apartments. That forces unnecessary displacement or induces local officials to hold the "special certificates and vouchers" allocated with Rental Rehab out of use so they will be available to avoid Rental Rehab displacement. The recommended amendment would give greater flexibility and thus permit more efficient local management.

SUMMARY

Rental Rehab used in conjunction with the tenant based rent subsidies of certificates and vouchers is an effective and inexpensive approach to low income housing in which investors will participate. Use of the concept should be continued, supported, studied, and considered for extension to other housing needs.



STATEMENT
FOR THE RECORD
BY
THE AMERICAN ASSOCIATION OF RETIRED PERSONS
ON
THE HOUSING AND COMMUNITY DEVELOPMENT
ACT OF 1987
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
APRIL 3, 1987

Mr. Chairman, thank you for this opportunity to comment on H.R. 4, the Housing and Community Development Act of 1987. AARP is a membership organization of over 24 million older persons. We appreciate the opportunity to testify present our views on federal housing policy as it affects low income and older persons. Our recommendations can be summarized as follows:

- o Prevent the potential loss of some 154,000 FHA 515, HUD section 221(d)(3) and Section 236 low income rental units occupied by older persons to market-rate and condominium conversions or demolition.
- o Retain the section 8 Existing program as the primary form of rental assistance for low income Americans.
- o Reauthorize the Section 202 Housing for the Elderly and Handicapped program at a level to support at least 12,000 new units per year.
- o Provide full operating and modernization funds for public housing. Continue production of public housing in areas with shortages of low income rental units.
- o Permanently authorize and expand the Congregate Housing Services Program.
- o Authorize a demonstration program of FHA insurance for Home Equity Conversion (HEC) mortgages.

In a recent survey of our member and volunteer leader opinions, the lack of affordable housing emerged as one of two most serious national issues affecting older persons. While great progress has been made in improving the housing conditions of older persons too many still cannot find or afford suitable housing. AARP believes the federal government must renew its commitment to the goal of decent, affordable housing for all Americans. This year's housing authorization bill should provide a start for this effort. I would like to highlight several issues that AARP feels the committee should consider.

Maintaining the Current Inventory of Assisted Housing

AARP is very concerned about potential reductions in the current inventory of assisted housing due to the prepayment of federally subsidized mortgages, termination of section 8 rental subsidies and the sale of public housing units. A reduction in the number of available low-rent units is unacceptable, given current unmet needs. To replace these units would be extremely expensive at today's construction costs.

Prepayment of federally subsidized mortgages threatens to displace thousands of low-income and older tenants living in multi-family

projects produced under the FmHA Section 515 Rural Rental, HUD Section 221(d)(3) Below Market Interest Rate (BMIR), and HUD Section 236 Rent Subsidy Programs. Current contracts require that the HUD units be limited to low-income tenants for a forty-year period, but certain owners may prepay the mortgage after twenty years, terminating all restrictions on use of the property. In the case of FmHA Section 515 units built prior to 1979, loans can be prepaid at any time without agency approval.

Large scale prepayments by owners would be disastrous for many older persons. Approximately 46.9 percent of all Section 515 units, 23.96 percent of Section 236 and 12.45 percent of 221(d)(3) BMIR units are occupied by older persons. According to a recent GAO report, 143,530 FmHA Section 515 rural rental units built before 1979 can be prepaid immediately without agency approval. Another 131,639 Section 515 units would be eligible after 1999. In addition, at least 217,544 units (53,850 Section 221(d)(3) and 163,694 Section 236) will be eligible for prepayment without HUD approval between 1986 and 1995. All in all, we estimate that FmHA and HUD projects serving the elderly and eligible for prepayment within the decade ahead represent, conservatively, 7 to 10 percent of all federally subsidized housing for older Americans. Congress acted last year to impose a temporary moratorium on prepayment of some of these loans, and prospects are good for an extension of the moratorium this year, but a long term solution is needed.

The human dimension of this problem was illustrated last year in Sonoma, California and Marysville, Washington where mortgages on two FmHA 515 projects were prepaid. Older tenants faced rent increases well beyond their means and local housing authorities were only able to find them housing by denying assistance to other older persons who had been on waiting lists for 2 years or more. The resources now available to FmHA and HUD are insufficient to address potential problems if prepayments commence on a large scale.

AARP believes that in developing federal policy with respect to prepayment, the hardship to which current tenants are exposed should be the major consideration. To avoid subjecting low-income older individuals and others to traumatic displacements, the Congress should consider the following actions:

- o FmHA and HUD should contact owners of projects to ascertain their intentions. Owner decisions may well hinge on FmHA/HUD's flexibility in considering mortgage modifications, sale proposals, and transfers of physical assets (TPA's). These transactions have been used to provide capital to meet deferred maintenance or rehabilitation needs. They can be significant to many projects with low replacement reserves and can also serve as leverage for HUD to gain concessions regarding tenant income characteristics.
- o Offer owners low interest loans to rehabilitate older

projects in return for maintaining them as low-income housing;

- o require HUD to certify that the sale or conversion of any units would not lead to displacement;
- o require that tenants be given first option to purchase units as low-income, limited equity cooperatives, or permit sale only to nonprofit organizations or public bodies that would agree to maintain units as low-income housing and
- o recapture a portion of the proceeds from the sale of prepaid projects for an emergency housing fund to finance replacement housing for units lost.

A proposal developed by the National Rural Housing Coalition would authorize FmHA to finance non-profit buyouts of Section 515 projects whose owners were considering prepayment. AARP believes this proposal is a sound one which deserves the Committee's support.

The Section 8 program provides rental assistance to make up the difference between the fair market rent, determined by the Department of Housing and Urban Development (HUD), and 30 percent of a tenant's income. Some 491,000 Section 8 certificates are now available to elderly households. Non-renewal of Section 8 contracts could result in a loss by 1995 of 600,000 to 1 million units from the low-income housing inventory, including many now occupied by elderly holders of these certificates. It is critical that this assistance be preserved.

HUD has indicated its intention to replace the expiring Section 8 rental subsidies with housing vouchers, a policy which AARP considers much less desirable. Such a change would trigger rent increases for many low-income tenants, since voucher payments are less generous and may be adjusted only twice during a five year contract period, whereas Section 8 rent subsidies are updated annually. The notion of the voucher providing a "shopper's incentive" is of dubious validity in a tight housing market; it is absurdly inappropriate when applied to special populations like the elderly and disabled, as those with mobility limitations can hardly compete with more able-bodied persons in finding affordable and suitable units. In addition, the voucher is not likely to provide enough subsidy to induce many owners with loans eligible for prepayment to retain their properties as low-income housing. AARP supports the Committee's provision of 75,000 units of Section 8 Existing Certificates for FY 88.

A concern for preserving the low-income housing inventory also argues strongly against the sale of public housing. Instead, AARP supports full funding of public housing modernization, maintenance and operating subsidies to help arrest deterioration of public housing stock and to provide a safer and less crime-prone environment for tenants. Elderly households currently occupy close to 40 percent of all public housing units. Recognizing the unevenness of housing

conditions around the country, AARP believes priority for new development should be given to areas with very low vacancy rates.

Expanding Housing Options for Older Americans

Housing choices available to older Americans, particularly those with low incomes, are too limited. In many areas, long waiting lists exist for federally assisted senior housing projects. A related problem is the poor condition and unsuitability of much housing presently occupied by older households. The Section 202 program is the major federally funded production program for housing designed especially for older persons. AARP believes continuation of this program is vital to expanding housing options for older persons. We are pleased that H.R. 1 contains an authorization level to continue the program at 12,000 new units per year.

The majority of older Americans, including those of low-income, own their own homes. However there is little assistance available to those older homeowners who need help with maintenance, modifications to compensate for physical limitations or in-home support. More than 40 percent of elderly homeowners have persistently high housing cost burdens for maintenance, repair and utility costs -- triple the percentage for all homeowners.

Home equity conversion (HEC) enables older homeowners to convert the equity in their homes into additional cash resources while still living in the residence. Besides ensuring continued familiar surroundings, home equity conversion can potentially finance home maintenance, in-home health care or support services. HEC mechanisms have been used on a limited basis and there is substantial interest in the concept among older homeowners. However, lenders have been unwilling to offer such mechanisms as a regular financial service because they are viewed as new and untested. Conventional long term mortgages faced the same problem at one time; they became acceptable, however, once FHA insurance was provided.

Last year, the House passed an amendment to H.R. 1 which would have established a 5-year demonstration program of federal insurance for home equity conversion mortgages, also known as reverse mortgages, for older homeowners. The Committee has included that provision in H.R. 4. An improved version of this legislation has been introduced by Representative Wortley as H.R. 1020 this year, and we would urge the Committee to substitute the new Wortley language for what is presently in the housing bill. Under the provisions of H.R. 1020 up to 2,500 federally insured mortgages may be written by authorized lenders with FHA insurance to protect both lenders and homeowners against risks such as default or eviction. An older homeowner would be guaranteed the right to remain in his or her home until death or sale of the house.

AARP believes that this demonstration program will be very valuable in developing viable reverse mortgage instruments to assist older homeowners who are "house rich, but cash poor." Although we do

not know exactly how many of these households there are, many among the 4.5 million single older homeowners will fall into this category. Among existing reverse mortgage programs, homeowner-borrowers are typically single females, with an average age of 75, and annual income of less than \$10,000.

Housing with Support Services

Housing for older persons involves more than just bricks and mortar. Individual physical limitations dictate, to a large extent, the composition of housing services required by older persons. Approximately one out of five persons aged 65 or older has at least a mild degree of disability and the likelihood of becoming disabled increases with age. For example, 46% of those aged 85 and over are functionally impaired, compared with 13% of those aged 65-74. An older person's housing environment can either enhance mobility and independence or add stress to an already impaired individual.

Support services enable older persons who can no longer live without assistance but do not require extensive medical supervision to "age in place". One of the unresolved challenges of housing for older persons is the accommodation of in-home supportive services. The population aged 75 and over is projected to grow by 51 percent from 1980 to 2005. While individuals in this group are clearly at risk of becoming institutionalized, they can live independently in their own communities with appropriate services. Among non-institutionalized individuals over age 85, 43 percent need some sort of aid in daily function either from family friends, or professionals. This aid may range from help in preparing food and dispensing medicine, to assistance with walking, or supplying transportation.

A large number of older tenants living in federally assisted housing (1.7 million older households) would benefit from support services since they have few if any alternatives to their current residences. The Congregate Housing Services Program (CHSP) provides nutrition, housekeeping and personal care assistance to elderly and disabled persons in public and section 202 housing. However, the program only serves 61 housing projects nationwide.

AARP believes that the CHSP should be permanently authorized and expanded. A recent comprehensive evaluation of the program shows that it is not only highly successful in improving participants' quality of life, but offers a viable, cost-effective alternative for many current nursing home residents and frail elderly tenants of public housing. AARP supports an authorization level of at least \$30 million for FY 88. Further, we recommend a part of these funds be used to finance an independent study conducted by a university or qualified research entity to:

- 1) Document the number of elderly in federally assisted housing at risk of institutionalization.
- 2) Study alternative delivery systems in the states,

including CHSP, to provide services to older persons in congregate and assisted housing.

- 3) To assess existing and potential financial resources at the federal, state and local levels for the support of congregate housing services.

AARP believes such a study would be useful in clarifying the needs of older persons in assisted housing and would serve as a blueprint for integrating federal and state efforts in the provision of congregate support services. We have attached to this statement a fact sheet describing the Congregate Housing Services Program in greater detail and outlining the reasons for expansion of the program.

Conclusion

By 1995, 6 million additional older households will be formed. Three-fourths of this increase will be among those aged 75 and older. Many of these households will be poor and will require support services to remain living independently.

The nation is ill-prepared to meet the needs of these future households or the millions of older families that are currently aging in place. Despite this fact, efforts to house low income and vulnerable Americans have been drastically reduced at the federal level. AARP believes it is essential to take another look at the nation's housing problems and see how a better job can be done.

AARP commends the committee for holding these hearings and expressing its intention to pass a housing authorization bill. We look forward to working with you in addressing these pressing national housing problems.

Thank you.

CONGREGATE HOUSING SERVICES PROGRAM
Questions and Answers

1. Q. WHAT IS THE CONGREGATE HOUSING SERVICES PROGRAM (CHSP)?
 - A. CHSP is a demonstration program authorized under Title IV of the 1978 Housing and Community Development Act Amendments, which enables HUD to grant funds to local Public Housing Agencies and non-profit organizations under the Section 202 Elderly and Handicapped Housing program to provide meals and supportive services to frail or impaired elderly, non-elderly handicapped, or temporarily disabled residents in need of such services.
2. Q. WHAT IS THE PURPOSE OF CHSP?
 - A. To prevent premature or unnecessary institutionalization of residents through the provision of services that enable them to remain independent.
3. Q. HOW DOES THE CHSP WORK AT THE LOCAL LEVEL?
 - A. Once HUD has approved its grant application, the public housing authority or Section 202 sponsor establishes a Professional Assessment Committee (PAC). The PAC establishes admissions criteria and reviews resident applications. Consistent with HUD guidelines, PAC members must include health and social service professionals and assist the project management in assessing the eligibility and needs of applicants. PAC members are all volunteers and serve without pay.

Participation in CHSP is voluntary for residents. Each resident pays what they can afford for services based on a sliding scale.
4. Q. WHAT TYPES OF SERVICES ARE PROVIDED BY CHSP?
 - A. By law, projects participating in the CHSP provide at least two meals a day, seven days a week to participating residents. Other services provided may include household chores, personal assistance, and transportation. The mix of services for each participating resident is developed by a volunteer professional assessment committee at each site.
5. Q. DOES THE CHSP PREVENT PREMATURE OR UNNECESSARY INSTITUTIONALIZATION?
 - A. Yes. An intensive evaluation of the CHSP demonstration was conducted for HUD by the Hebrew Rehabilitation Center for the Aged (Boston, Massachusetts) from 1980 to 1985.

Results released earlier this year show that only 15 percent of those participating in CHSP compared to 25 percent in the control group were institutionalized. Also significant was the extent to which the availability of CHSP services allowed nursing home residents to move to a less restrictive environment. The study showed that the proportion of persons moving from nursing homes to CHSP sites was five times higher than that of those moving to non-CHSP sites.

6. Q. HOW DO THE COSTS OF CHSP COMPARE WITH NURSING HOMES OR OTHER SIMILAR SOCIAL SERVICE PROGRAMS?
 - A. The HUD evaluation indicated an average daily cost of \$6.80 for CHSP versus \$36 for intermediate care. A 1984 analysis compares the costs of 22 CHSP grantees with nursing home costs in the states where these grantees were located. The data showed that the average cost to the government for one person's participation in the CHSP was approximately \$4,600 per year, including the HUD subsidy for apartment rental. Total nursing home cost (skilled care) to the government averaged \$14,500. Independent studies conducted in several states show similar cost savings.
7. Q. DOES PROVISION OF SERVICES UNDER CHSP REDUCE OR REPLACE EFFORTS BY LOCAL AGENCIES AND FAMILIES TO ASSIST OLDER RESIDENTS?
 - A. No. The HUD evaluation concluded that CHSP did not diminish or reduce utilization of prior services and complemented rather than substituted for other programs. CHSP funded services were used by project administrators to fill gaps in the local social service network. This enabled services to be better tailored to the specific needs of participating residents.
8. Q. WHAT IS THE CURRENT STATUS OF CHSP?
 - A. The demonstration program currently funds 61 project sites in 33 states serving some 2,000 persons. Thirty-one sites are at public housing projects and 30 at Section 202 facilities. Forty-five sites are located in urban areas and 16 in rural areas. Fifty-one sites serve older persons and the remainder non-elderly handicapped.

\$3.4 million was appropriated for FY 1987. This amount will keep the existing projects funded until April, 1988. To date, \$34,099,300 has been appropriated (FY 1979 - 1987). The Administration has proposed to eliminate the program in FY 1988.

9. Q. HOW MANY PUBLIC HOUSING AND SECTION 202 PROJECTS EXIST THAT COULD BENEFIT FROM CHSP?
- A. There are over 500,000 units of public housing occupied by older households. The Robert Wood Johnson study indicated that at least 15 percent of these households have at least one disabled member. There are over 140,000 Section 202 housing units in some 2,000 projects. The average age of older tenants living in one of the older 202 projects is 78 while in the newer projects the average is 71. Although an average of six on-site services are offered per project, the types of services (such as personal care and housekeeping) that will enable this "aging in place" population to remain independent are offered on a very limited and fragmented basis. AARP estimates that of the total elderly population living in public and Section 202 housing (approximately 750,000 persons), some 113,000 are in immediate need of support services.
10. Q. WHAT DOES AARP PROPOSE FOR THE FUTURE OF THE CHSP?
- A. AARP believes that the CHSP should be permanently authorized and expanded. AARP supports an authorization level of at least \$30 million for FY 1988. Further, the Association recommends a portion of these funds be used to finance an independent study conducted by a university or qualified research entity to:
- 1) Document the number of elderly in federally assisted housing at risk of institutionalization.
 - 2) Study alternative delivery systems in the states, including CHSP, to provide services to older persons in congregate and assisted housing.
 - 3) To assess existing and potential financial resources at the federal, state and local levels for the support of congregate housing services.
- The study would be useful in clarifying the needs of older persons in assisted housing and would serve as a blueprint for integrating future federal and state efforts in the provision of congregate support services.
11. Q. HOW MANY ADDITIONAL PROJECTS CAN BE FUNDED AT THE PROPOSED LEVEL OF \$30 MILLION?
- A. An appropriation of \$30 million in FY 1988 would allow continuation of the current projects for an additional 5 year period and provide funding for the at risk study. Funding at the same level in subsequent years FY 1989 - 1992 would enable start-up of approximately 300 additional

projects with 5 year contracts. The number of new start-up projects could be almost doubled by using 3 year contracts.

12. Q. WHY IS IT IMPORTANT TO EXPAND AND FURTHER DEVELOP CONGREGATE SUPPORT SERVICES?

- A. A large number of older tenants (1.7 million older households) currently reside in federally assisted housing and are "aging in place." These older persons have few, if any, alternatives to their current residences. A recent study, funded by the Robert Wood Johnson Foundation, of 100 large public housing authorities representing roughly half of all elderly headed households in public housing, illustrates that the need for an expanded CHSP. The study found three-fourths of the elderly residents lived alone more than one-third are 75 or older more than 80 percent have incomes below 50 percent of the area median, and more than four in ten have lived in the same location for at least 15 years. As these individuals age, they face an increasing risk of institutionalization unless support services are made available. Managers of public and assisted housing have expressed growing concern about their inability to adequately meet the needs of frail elderly tenants.

The costs of institutionalization for both federal and state governments are enormous -- the federal share alone for Medicaid in FY 1984 was \$13.9 billion. The human costs of unnecessary institutionalization are incalculable. AARP believes more emphasis should be placed on preventative programs like CHSP that can help control costs and offer greater independence for older persons.

13. Q. WHY SHOULD THE CONGREGATE HOUSING SERVICES PROGRAM (CHSP) BE ADMINISTERED BY HUD?

- A. To ensure that funds for support services are directly targeted to frail elderly and handicapped residents of federally assisted housing. HHS-provided services have traditionally been geographically dispersed and not provided within a congregate setting. For example, nutrition services under Title III of the OAA or Title XX are usually only available off site and five days a week, as opposed to on site and seven days a week under CHSP. The concentration of support services at the CHSP sites also allows projects to take advantage of economies of scale.

Because it is forward funded, CHSP is very compatible with the development of new congregate facilities under Section 202 and public housing. The long-term commitments under CHSP allow housing sponsors to plan their projects more effectively.

Finally, HUD has a long-standing and ongoing organizational relationship with the public housing authorities and sponsors of public and Section 202 housing. It is the managers of this housing who are dealing on a daily basis with the problems of frail tenants.

14. Q. HOW CAN CHSP HELP OFFSET OR REDUCE CURRENT FEDERAL COSTS?

- A. Basically, by making current funds serve more people. Services in a nursing home cost \$50-60 a day with the federal government picking up 50-70 percent of the cost, depending upon the state. The HUD evaluation cited an average daily cost of about \$7 under CHSP versus \$36 for nursing home care. Thus, CHSP could serve approximately 5 times more people with the same dollars.

15. Q. WHY IS A STUDY NEEDED; WHAT WILL IT ADD TO CURRENT KNOWLEDGE?

- A. First, although there have been some studies evaluating congregate housing services programs, and others estimating the need for such services, they have not provided the kind of comprehensive data needed to assess accurately the population at risk of institutionalization across the full spectrum of federally assisted housing. The Robert Wood Johnson Foundation (RWJF) study, for instance, looked at the 100 largest public housing authorities in the nation, but not at Section 202's. Moreover, the RWJF study did not break down "the elderly" into significant sub-groups, such as those aged 65-70; 70-75; 75-80, and so on. This information is quite important in determining the level of need for services.

Secondly, recognizing that the need for services is substantial and growing, ways must be found to involve the states in the CHSP, both in terms of administration and financing. Without some sort of federal-state cost sharing there is little chance of addressing these needs meaningfully over the years ahead. The proposed study will look at alternative service delivery systems in the states, including CHSP, as well as the financial resources available at various levels of government for the support of these services. The findings should contribute to the development of a modified approach that encourages state participation, expands services, and spreads the cost more equitably.

STATEMENT

HR 4, HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987

REPRESENTATIVE SHERWOOD BOEHLERT

Subcommittee on Housing and Community Development
 Committee on Banking, Finance and Urban Affairs
 April 23, 1987

Mr. Chairman, this is a measure of critical importance because of the wide range of essential programs it covers. However, there is one item in this bill that I find particularly encouraging and wish to address. I am referring to the \$225 million authorization for Urban Development Action Grants (UDAG's).

As someone who has fought for this program in every possible forum, I was relieved to see that the Committee has earned special commendation for leading the way. For years there have been efforts to slash the funding for this vital program. Since 1980 there has been only one authorization of federal housing and community development programs. In 1985, assisted housing authorizations contained in the Housing and Urban Rents Recovery Act of 1983 were allowed to expire and last September for the first time since their enactment the UDAG program was not reauthorized. Instead, this program continues year to year in appropriation bills. I agree with you that this is not a responsible way to formulate and implement national housing and community development policies.

I strongly support the provisions of HR 4 to reauthorize and improve the project selection criteria of the UDAG program. If ever there was a program that fits the phrase "public-private partnership," the UDAG program is it. UDAG's create new, permanent jobs in distressed communities. We still have an unemployment problem in this country, albeit an improving one, and we can ill afford to reduce or eliminate programs that have a proven capability to put Americans to work. UDAG's have been a critical element in urban development since the program's inception, with more than 2,400 projects funded in over 1,000 cities. These projects involve the public and private investment of more than \$26 billion, while creating or maintaining nearly 500,000 permanent jobs.

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 REPRESENTATIVE SHERWOOD BOEHLERT
 Subcommittee on Housing and Community Development
 April 23, 1987

GAO reported that 92 percent of the new permanent jobs that developers predicted would be created by UDAG projects did, in fact, materialize. Several projects even surpassed expectations. I am intimately familiar with one of those projects--the construction of a new Sheraton Inn and Convention Center in downtown Ut ca New York, an area I represent. The erection of that inn and convention center has done far more than provide jobs for 150 people, though that alone is a significant achievement. It has infused new life into a downtown district that had been given up for lost.

The UDAG program generates more revenues in the form of increased taxes and reduced transfer payments than it costs. Its because they rely on the leadership of business and local government officials closest to the situation. Clearly UDAG has helped to build a solid new economic foundation for the nation while maximiz ng the return on scarce Federal dollars. Such a successful Federal program should not be the target for elimination by the Administration.

I strongly support UDAG as an important and proven tool that enables private investors and local governments to carry out projects which help deve op the economies of the nation's most distressed cities and believe that our compromise will significantly strengthen support for the UDAG program. Simply put, the UDAG program is a winner. Both its ends and its means have been exemplary. The proposed elimination of UDAG comes at a time when the demand for UDAG assistance for commercial, industrial and residential development in distressed cities is at an all-time high. I'm pleased that the Committee has seen fit to authorize this relatively modest level of funding, \$225 million, which permits this program to continue operating effectively.

Manufactured Housing Institute

1745 Jefferson Davis Highway, Arlington, Virginia 22202/ (703)979-8620

March 30, 1987

The Honorable Henry B. Gonzales
Chairman
Housing and Community Development
Subcommittee
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Gonzales:

We are writing regarding the committee's consideration of H.R. 4, the Housing and Community Development Act of 1987. We understand that the subcommittee has held a series of hearings on this bill and will be taking action on it next week.

Since the Manufactured Housing Institute (MHI) did not have an opportunity to testify before the committee, we would like to express our views on several issues that we understand were raised in testimony by the National Association of Home Builders (NAHB) and which have an impact on our members.

The first issue concerns the Department of Housing and Urban Development's (HUD) efforts to reverse its decade-long practice of permitting manufactured home builders to remove the metal transportation frame from homes designed for permanent siting. HUD reversed its practice without complying with its own regulations which require rulemaking (24 CFR 3282.113). The industry is seeking injunctive relief to require HUD to go through proper rulemaking.

In spite of its previous interpretations, HUD now argues that the "permanent chassis," as used in Title VI of the Housing and Community Development Act of 1974 (42 U.S.C. Section 604), includes the home's metal transportation frame.

MHI agrees that the law requires a manufactured home to have a "permanent chassis." However, since "permanent chassis" is undefined, HUD can define it to include the entire wooden buttressed floor system. In fact, it has done so in the past, and now it has changed its policy. If HUD wishes to change its interpretation, it should do so through the appropriate rulemaking procedures.

The Honorable Henry B. Gonzalez
 March 30, 1987
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In the meantime, the committee should consider amending the statute to clarify the term "permanent chassis" so that a manufactured home can be designed with a buttressed floor system and a metal transportation frame which may be removed when the home is permanently sited.

A change in the law is needed to encourage and facilitate the availability of permanently sited housing for first-time, moderate-income and elderly homebuyers. It is also needed in order to recognize changes in building design and technology that are aimed at reducing construction costs providing access to basements, and enhancing the ability to permanently site manufactured homes in subdivisions, planned unit developments, single-family lots. Clearly this is consistent with previous actions by the Congress which supported long-term financing for permanently sited manufactured homes insured under the Federal Housing Administration (FHA), Veterans Administration (VA) and secondary market programs. Just as Congress, in 1980 changed the term "mobile home" to "manufactured home" in the statute to recognize the changes in home design and building technology, it should now follow up by clarifying that these homes are intended to be permanently sited.

The second issue raised by NAHB concerns recent problems in the Government National Mortgage Association (Ginnie Mae) Manufactured Home Loan program. In the past several months, several major lenders of FHA Title I manufactured home loan insurance have turned over to GNMA the servicing of \$700 million in FHA insured and VA guaranteed manufactured home loans. High default rates, due in part to regional business recessions in the oil belt of Texas, Louisiana and Oklahoma, and flaws in the Title I loan program, have caused this problem. We share HUD's concerns about the health of the program, particularly since the Ginnie Mae program is the only organized secondary market for manufactured home loans. It is vital that it be preserved.

MHI supports recommendations made by the National Manufactured Housing Finance Association that could help relieve the current crisis in the short term. We believe that the MHI-supported changes implemented last year in the FHA Title I program will go a long way to prevent future problems. MHI also supports changes in the National Housing Act that would convert the FHA Title I manufactured home insurance program from a portfolio insurance program to an individual loan insurance program and give it parity with the FHA 203(b) program. The 10 percent coverage limit and the annual reduction in coverage should be dropped from the current requirements of the FHA Title I program for manufactured home loans.

In conclusion, we hope this clarifies our position on the concerns raised by NAHB, and we look forward to working with you and your colleagues

The Honorable Henry B. Gonzalez
 March 30, 1967
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to address these issues in order to ensure the continued availability of affordable housing and housing finance for first-time, and low- and -moderate income home buyers, and the elderly. We respectfully request that this letter be submitted for inclusion in the hearing record on H.R. 4.

Sincerely,



Jerry C. Connors
 President

JCC:ect

Copy to: Congressman Chalmers P. Wylie
 Members of Housing and Community
 Development Subcommittee

STATEMENT OF
THE UNITED STATES LEAGUE OF SAVINGS INSTITUTIONS
ON H.R. 4
SUBMITTED TO THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS
FOR HEARINGS HELD MARCH 12, 1987

The United States League of Savings Institutions* appreciates this opportunity to comment on H.R. 4, the Housing and Community Development Act of 1987. The U.S. League is the principal trade association representing the nation's savings institutions. These institutions, over 3000 in number and operating in every jurisdiction in the country, have for several decades been the primary source of mortgage credit for the home buying public. We are proud of this record and prouder still that this fact remains true today despite the adversity faced by the thrift industry in the past few years.

The U.S. League will not comment on all of the important housing issues addressed in H.R. 4. This statement will concentrate on a select few issues which we feel have a direct impact on our members and the conventional housing market in which they operate. Before doing so, the League

*. The U.S. League of Savings Institutions serves the more than 3,400 member-institutions which make up the \$1.2 trillion savings association and savings bank businesses. League membership includes all types of institutions -- federal and state-chartered, stock and mutual. The principal officers include: Joe C. Morris, chairman, Emporia, Kansas; Theo Pitt, vice-chairman, Rocky Mount, North Carolina; William B. O'Connell, president, Chicago, Illinois; Phil Gasteyer, executive vice president and director of Washington operations. League headquarters are at 111 East Wacker Drive, Chicago, Illinois 60601. The Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. 20006. Telephone (202) 637-8900.

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wants to state that it supports the passage of an omnibus housing and community development authorization bill. While our members may not participate directly in all of the programs contained in such a bill, we do, never-the-less, support a wide range of programs aimed at expanding the housing opportunities and meeting the shelter needs of the families who are unable to secure housing without such assistance. We therefore support the passage of H.R. 4 and urge its adoption.

FNMA AND FHLMC SECOND MORTGAGE PURCHASE AUTHORITY

In 1984 as part of the Secondary Market Enhancement Act, Congress granted to the two federally-sponsored secondary market agencies the authority to purchase subordinate liens on residential real property. Fannie Mae had, since 1981, been engaging in this line of business by way of a regulatory grant of authority from the Secretary of Housing and Urban Development. The motivation for this authority was to supplement the home ownership mission of Fannie Mae. In the early years of this decade, the housing market was slowed by high interest rates. Sales of both existing and new homes in many cases required the use of second mortgage loans to arrange the credit needed by the buyer. Typically the seller, whether a builder or an individual seller, would "take back" a second loan from the homebuyer. In many cases, this loan would be sold to an investor so that the seller could

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realize fully the proceeds of the sale of the house. Because of the extensive use of such mortgages in the housing market of the early '80s, Congress granted to the agencies the authority to purchase these loans, within prescribed dollar limits.

The fact that Congress put a "sunset" date on this authority of October 1, 1987, indicates the trial nature that was assumed at the time. This approach was even more appropriate than one could have imagined in 1984. In the intervening three years the role of second mortgages has changed dramatically. We respectfully suggest that the Subcommittee consider these changes before granting an extension of this authority in its current form.

Since 1984, two very important events have occurred which give us a very different set of facts in today's mortgage market. The first event has been the dramatic decline in mortgage interest rates in the last three years. Good news for homebuyers, home sellers, and everyone else involved in the housing market. As a result, there simply is not the need for second loans to arrange the sale of homes. We have, fortunately, returned to the more traditional form of mortgage financing. The need for this authority is not today what it was in 1984.

The second event is the passage of the Tax Reform act of 1986. In that Act Congress set the stage for a dramatic transformation of consumer credit in this country and gave the

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second mortgage a new lease on life and a new purpose. It has been highly publicized that lending institutions of all kinds are offering consumers second mortgage loans for any purpose; vacations to Europe, the new car, or consolidation of other consumer debt. This is taking place because Congress decided that after a three year transition the only personal interest deductible for tax purpose would be on debt tied to the home (first or second). The authority granted in this bill will permit the two agencies, ~~Fannie Mae and Freddie Mac~~, to purchase these new second mortgages. When Congress granted this authority back in 1984 no limitations were put on the kind of seconds or purpose thereof. Recent experience at that time suggested that such loans were used to facilitate the homebuying process. As such this line of business was seen as a natural extension of the mission of the two agencies to promote homeownership. But today we face an entirely different situation. The second loans being made today have an entirely different purpose. They can no longer be viewed as part of the homebuying process. They are, in reality, the new form of consumer credit.

The U.S. League is in no way suggesting that those responsible for the management of the two agencies have been less than totally committed to these goals. Our concern stems from the changes rapidly taking place in the nation's consumer finance market, changes beyond the control or influence of the managements of FNMA or FHLMC. The fact is, at an increasing

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rate, second mortgages are being used as a substitute financing vehicle for the purchase of "Big Ticket" consumer goods and services.

Because of the new tax law which took effect on January 1, 1987, consumers have been deluged with offers to finance everything from the new car to the summer vacation with a second mortgage on the "old homestead". It is not our purpose to debate the wisdom of this change in the tax code. This is neither the forum nor the time for that debate. Nor are we suggesting that there is anything wrong in the exercise of this option for consumers. What is very much at issue and appropriate in the discussion in the context of H.R. 4 is whether or not the federally assisted credit intended for home ownership should be allowed to be used for the purchase of consumer goods and services totally unrelated to the purpose for which the credit assistance programs were created.

As it now stands, there is no limit as to the subordinate loans that may be purchased by FNMA or FHLMC. Indeed it is only with the advent of this new tax code that there is reason for us to be particularly concerned over the possibility of a dissipation of federal housing credit. The remedy for this problem is to require that the second mortgages purchased by the two federally sponsored secondary market agencies be those entered into for the purpose of and at the time of the purchase of residential real property.

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If Congress is to insure that the home ownership purpose for which the secondary market assisted credit is intended is not diluted by unrelated uses, Congress must limit the access to this credit source to loans which are entered into for the purpose of purchasing a home.

REAL ESTATE MORTGAGE INVESTMENT CONDUITS

Created by the ~~Tax Reform Act of 1986~~, REMICs are a new form of multi-class, mortgage backed security. The tax bill dealt with the tax treatment of these mortgage pools, their investors, sponsors and qualifying assets to the extent that there were tax issues to be resolved. The Tax Act does not address, nor does its legislative history, the issue of who should or should not be authorized to sponsor REMIC pools. That issue, we suggest, should be decided as part of housing and financial services policy and not tax policy.

At this time one aspect of this question is being considered by the Secretary of Housing and Urban Development. Fannie Mae has requested the authority from the Secretary to directly issue REMIC securities based on current purchases of conventional mortgage loans. We raise this issue here because other witnesses have used the hearing as a forum to advance the case that Fannie Mae should be given the requested authority. While we think it would be inappropriate for the Subcommittee to attempt to resolve this matter in the context of the pending housing authorization bill, we do want to balance the record.

It is the carefully considered view of the U.S. League that the newly emerging field of REMIC securities should be preserved as a testing ground of the proposition that the private market can serve the nation's housing and conventional mortgage market. Given the subsidy implicit in the government agency status of Fannie Mae and Freddie Mac, if they are permitted to directly sponsor REMIC securities they will dominate this new field and crowd-out potential private issuers. Attached to this statement is a comparative cost analysis.

We take this opportunity to respectfully suggest to the Subcommittee that the REMIC/FNMA issue is the perfect vehicle for a general review of the role and purpose of the federally-sponsored secondary market agencies. We believe that such a review is overdue and that given the dynamics of the mortgage market, the need for such hearing is urgent. We sincerely hope that such hearings will be high on the Subcommittee's agenda after the passage of H.R. 4.

A review of the role of Fannie Mae and Freddie Mac should, in our judgement, be directed at the question of who are the beneficiaries of the federal support provided through these agencies activities, what segments of our society and housing market are served, and are the answers consistent with the objectives of Congressionally established housing policy. It is in this context, Mr. Chairman, that such specific issues as REMIC participation, mortgage purchase limits, indexes, and

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others can be properly examined and issues resolved in a coordinated fashion.

FHA INSURING AUTHORITY

H.R. 4 extends the insuring authority of FHA through FY 88. The U.S. League supports the extension of this authority on a multi-year basis. The League hopes that Congress will take all ~~necessary steps to avoid a~~ repeat of the 1986 experience. The several lapses of authority occurring last year caused market disruption and ~~uncertainty~~ and added to operating cost to mortgage lending firms. More importantly, these lapses caused needless anxiety and apprehension for thousands of families for whom FHA offers their only home buying option.

HOME MORTGAGE DISCLOSURE ACT

The U.S. League continues to believe that there is no net benefit to consumers from the duplicative, multiple reporting and record keeping requirements of various laws and regulations. HMDA and CRA (Community Reinvestment Act) along with the FHLBB required loan application register are all aimed at the same target-- preventing discrimination in lending practices based on neighborhoods, race, sex, or religious preference. The League supports the equal opportunity

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objectives of these rules and regulations. We do, however, object to the wasteful duplication of effort that results from the three similar but distinct requirements.

USER FEE PROHIBITION

The U.S. League supports the provisions of H.R. 4 which prohibit the imposition of user fees on the federally sponsored housing credit agencies. Our support for this provision is, however, closely related to our request for a thorough hearing on the future role of the secondary market agencies, which are most of the beneficiaries of this part of H.R. 4. Whether user fees are appropriate in the long run should be decided in the context of such a review.

CONCLUSION

In conclusion, Mr. Chairman, the U.S. League supports the adoption of a housing authorization bill as quickly as possible. We also support the efforts made by the Subcommittee Chairman to focus attention on the broader issues of shelter needs and housing policy. We look forward to working with the Subcommittee in this critical area.

ATTACHMENT #1

COST DIFFERENTIAL: PRIVATE ISSUERS VS. AGENCIES
AS DIRECT ISSUERS OF REMICS

The Tax Reform Act of 1986 contained provisions for an entity called a Real Estate Mortgage Investment Conduit or REMIC. REMICs are legal entities which hold qualifying mortgage assets and issue securities representing interests in those assets. A REMIC receives favorable tax treatment since it can issue multiple-class mortgage pass-through securities that are taxed essentially like a single-class pass-through.

While the benefits of REMIC provisions are indirectly extended to the federally sponsored mortgage credit agencies such as Fannie Mae and Freddie Mac, the question of whether they can be direct issuers of REMICs has not been addressed or resolved by Congress. This is one facet of the broader issue of the role of the federal government in the housing finance and secondary mortgage markets, ~~an issue well outside~~ the sphere of the Tax Reform Act.

The sponsored agencies represent a major competitive force in the mortgage marketplace. If the agencies are allowed to be direct issuers of REMICs, they will simply crowd-out private issuers and thus stifle both competition and innovation. The cost advantages to the agencies are such that a private institution would be placed at a tremendous disadvantage. There is little possibility that a private lender can compete head-to-head in REMIC issuing with Fannie Mae.

There are two major types of costs facing an issuer. The first is the up-front costs of issuance, which are shown in detail in Exhibit 1. Assuming a \$250 million issue, Fannie Mae would have total expenses of approximately \$830,000 compared with the private issuer's cost of \$2,070,000. The agency has three major advantages in terms of the issuance expenses. First, because of its agency status, it does not require a rating. Its agency status also lowers its prospectus preparation costs; the name substitutes for detail in the offering circular. Second, it does not have to file a registration with the SEC. Third and most importantly, the agency receives significant discounts on the underwriting fees, accounting expenses and legal expenses because of its issuance volume. Before the issue even hits the street, Fannie Mae has saved \$1,240,000 over the private issuer.

EXHIBIT 1 -- ISSUANCE COSTS

<u>Type of Expense</u>	<u>Private Issuer</u>	<u>Federal Agency</u>
Underwriting Fees	\$1,550,000	\$625,000
Rating	\$105,000	\$0
Accounting	75,000	30,000
Trustee Set-up	15,000	0
Legal Expense	125,000	75,000
SEC Registration	50,000	0
Prospectus Preparation	100,000	50,000
Miscellaneous	50,000	50,000
Totals	\$2,070,000	\$830,000

Note: Underwriting fees equal 62 basis points for the private issuer and 25 basis points for the agency.

The second major category of costs are the on-going or annual expenses. The biggest advantage to the agency on an annual basis is the absence of a swap fee of 25 basis points. This is the cost of securitizing or guaranteeing the issue. Because of its federal status, Fannie Mae acts as its own guarantor, thereby saving \$625,000 a year on a \$250 million issue. Overall, in the first year Fannie Mae has a cost advantage of \$1,940,000 (\$1,240,000 issuance cost savings plus \$700,000 first year annual expenses) over the private issuer. The \$700,000 cost savings accrues to the agency each year thereafter. Over the life of a 30-year issue, the agency's total savings equal \$22,240,000.

EXHIBIT 2 -- ANNUAL EXPENSES

<u>Type of Expense</u>	<u>Private Issuer</u>	<u>Federal Agency</u>
Swap Fee	\$625,000	\$0
Trustee Fee	50,000	\$0
Accounting Review	15,000	15,000
Monthly Pay-bond Admin.	50,000	25,000
Totals	\$740,000	\$40,000

In addition to these savings, the agency also enjoys other advantages over a private issuer. An agency issue is likely to receive more favorable reception in the marketplace. Fannie Mae, like the U.S. Treasury, is a known quantity. Its issuance of large volumes in standardized form enhance market liquidity, which is an advantage to the purchaser. A private issuer coming to the market can expect to pay 25 to 35 basis points more than the agency to compensate the purchaser for the unknown liquidity.

The agency could also elect to sell the pool interests in the retail rather than the wholesale market, similar to the practice of selling shares in a Ginnie Mae mutual fund. The cost advantage of taking this route is estimated at 25 to 50 basis points. The agency issue will have a government guarantee analogous to federal deposit insurance. In addition, Fannie Mae's market presence and name would be important attributes to receiving a higher sales price.

There is some overlap between market liquidity and retail market sales, so that the overall cost savings to Fannie Mae from these two factors probably lies somewhere between 25 and 50 basis points. On a \$250 million issue, this is an additional cost savings to the agency of \$625,000 to \$1,250,000 annually.

It is clear that Fannie Mae as a direct REMIC issuer has significant cost advantages over the private REMIC issuer. It is unlikely that a private issuer could successfully compete with the agency in the marketplace. In fact, Fannie Mae could match any price of a private issuer and still sell the issue at a profit. Any private institution would have little choice but to acquiesce to the agency.

One final point. Some observers have suggested that private issuers could compete with the agencies in the REMIC arena since private issuers compete successfully in the CMO market. While this is true, this observation misses one critical point: since CMOs have to be carried as debt, the agencies are effectively restricted in their activity. They have to meet capital requirements which impose constraints on their activity. No such constraint exists with REMICs. Since they are \$250 million issue, this is an additional cost savings to the agency of sales treatment for financial statement purposes and thus complete extinguishment from the balance sheet. Hence, the agencies would be a much more potent actor in the REMIC market.

Research Department
U.S. League of Savings Institutions



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